

MANUAL

Fidelity Insurance
and
Corporate
Suretyship

THE SPECTATOR COMPANY

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MANUAL OF
FIDELITY INSURANCE
AND
CORPORATE SURETYSHIP.

Descriptive of Surety and Fidelity Bonds with their
practical uses, and the conditions under which
they should be written

WITH
HINTS TO AGENTS.

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Baltimore, Md.

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PREFACE.

The need for a concise, accurate, and at the same time, simple treatise on Fidelity and Surety Bonds has frequently been brought to the attention of the writer, both by his friends among the soliciting fraternity and also as a result of his own experience in the surety business. To meet this lack of accessible information this manual has been prepared. In it, as far as possible, legal and technical phrases have been avoided, the effort being to make it comprehensive and useful to the agent and solicitor in their particular fields.

Most of the literature upon the subject has been either the work of lawyers for their brothers of the profession—the matter being treated from a purely legal point of view—or the compilations of specialists, whose articles have been constructed on a purely technical foundation. The writer has been compelled to familiarize himself with the legal and technical literature on the subject, which is widely scattered, and not generally accessible to the agent or solicitor. The logical relation between this information, which usually treats of matters of interest to the general office or its legal department, and the basic principles of the surety business is not always clear.

Although this work is primarily for the agent and solicitor, the basic principles on which the business is founded are explained; while the manner in which any individual proposition must be regarded by the home office is so discussed, that it is hoped the business man may overcome any uncertainty of mind in regard to the general subject existing on his part by reference to the following pages.

The surety business is now so extensive and far reaching that there is scarcely any business or profession with which

PREFACE.

it does not come into contact, and on which its influence is not felt. This book, therefore, should be of interest not only to the agent or solicitor whose livelihood may depend upon his knowledge of suretyship, but also to many others who use corporate suretyship to a sufficient extent to be interested in its principles and workings.

INTRODUCTION.

HISTORICAL.

The exact origin of suretyship is unknown, but we know that it is of ancient practice having been referred to in the Old Testament.* Many hundreds of years later, it was made the basis of one of Shakespeare's greatest plays, "The Merchant of Venice."

The first recorded attempt to establish a society having for its purpose acts at all akin to the present form of fidelity insurance was made in London in the year 1720. The object of this society, however, extended no further than what might be termed the guarantee of hired servants, and did not embrace the numerous uses to which Fidelity Bonds are now put.

About the year 1840, recognition was given to the application of the laws of average, which govern insurance, to the principles of fidelity insurance, and several years later the pioneer fidelity company was organized in England by a special act of Parliament. This was the first public or official recognition of the usage of fidelity insurance, for the act granted power to certain government officials to accept the company's bonds or policies in lieu of personal surety or securities formerly authorized to be taken by law.

The first legislative recognition of this business in the United States was given by an act of Legislature of the State of New York in 1853. This enactment empowered insurance

*Genesis, 43: 9—I will be surety for him; of my hand shalt thou require him; if I bring him not unto thee, and set him before thee, then let me bear the blame forever.

Proverbs, 11: 15—He that is surety for a stranger shall smart for it: and he that hateth suretyship is sure.

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companies organized under its provisions to guarantee, among other things, the fidelity of persons in positions of public and private trust. However, it was not until the year 1876 that a company was organized under this act, and not until 1880 did it commence the transaction of fidelity insurance. In June, 1881, the Legislature of New York extended the powers of companies, authorized under its authority, to such an extent that the guarantee of the companies could be taken in lieu of the usual security given on bonds and undertakings required by law, while judges and other officials were authorized to approve bonds and undertakings when so guaranteed. Prior to this time, corporate suretyship was limited to that class of bonds which are now known as straight Fidelity Bonds, or those which guarantee only against dishonesty. Subsequently, by operation of the laws referred to, and by numerous others enacted since, corporate suretyship has branched out until it now covers a much wider scope of transaction than any other form of insurance, including not only the guaranteeing of honesty, but also the faithful performance of duty, the carrying out of an agreement or contract, and indemnity against loss in a great number and variety of other cases.

By the growth of legislation on the subject, as well as the change in custom, the practice of personal guarantees has been almost superseded by that of corporate suretyship.

This widespread use, and the necessary compilation by the companies of the results of risks which they have taken, has caused the greatest caution and most careful scrutiny to be given to every proposition. Indeed, this is necessary for the safety of companies on account of the enormous variety of obligations which a corporation issuing Surety Bonds is called upon to assume. One of the chief causes of this exercise of care is the fact that the transaction of this line of business differs from other insurance lines in that there are three instead of two persons involved:—the surety, the assured, and the so-called third party or principal from whom as a rule the Fidelity or Surety Bond has been exacted. The fact that

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the bond is required of the principal rather than given voluntarily by him is an important element in considering the moral hazard of the risk, and it is due chiefly to this that much that affects a corporate bond may remain unknown to, or at best only surmised by the underwriter. This underlying principle in the writing of Fidelity and Surety Bonds makes the business differ greatly from other lines of insurance, and causes considerable confusion among field men.

ANALYSIS OF RISKS.

A simple, but necessary, analysis of all risks may be outlined as follows:

1—Those risks which are underwritten on a straight insurance or average basis, such as the usual Fidelity Bond or those bonds which may be termed honesty risks.

2—Those risks which are underwritten on a credit or banking basis and which may be termed pecuniary risks.

3—Those, in which both of the above principles are involved, and which guarantee not only the honesty of the principal, but also that he will faithfully perform his duties or carry out any contract or agreement under which he is working.

Misconception of these different classes of risks often gives rise to the erroneous idea which exists in the minds of a large part of the public that, inasmuch as corporate suretyship is classed as insurance, it can be and is written on the general insurance plan of an average basis; whereas, from a consideration of the above, it is evident that only a portion of it can be written in this manner. A further treatment of the subject will be given in subsequent chapters, which will show its application to the various kinds of bonds.

DIVISION BY STATE INSURANCE DEPARTMENTS.

The insurance departments of the various states have divided the business of corporate suretyship into the two divisions; i. e., fidelity and surety. Broadly speaking, the

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difference between them is as follows: a Fidelity Bond is a negative guarantee, and its intent is that the principal will not commit certain acts under certain given circumstances; whereas, a Surety Bond is a positive guarantee, and under its operation the principal is expected to perform definite things or to comply with certain requirements.

As there is no hard or fast rule describing exactly when risks should be placed in one or the other of the two divisions named above, and as underwriting problems present many cases in which the guarantee has both a fidelity and surety aspect, hardly any two authorities agree upon the proper classification of risks, and probably no two companies are placing exactly the same kind of bonds under the same divisions.

In this book the different kinds of business will not be separated into the two general divisions of fidelity and surety, in accordance with the author's individual ideas, but will be divided into a large number of classes. Such classes, in turn, will be treated separately, in order to avoid any confusion which might arise were the author's system of division to differ from that of the companies whose agents may have use for this volume. In dividing the business an endeavor has been made to place in each class those bonds which bear the closest resemblance to each other, and which the underwriter approaches from the same general point of view.

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CHAPTER I.

FIDELITY BONDS.

The usual Fidelity Bond is to protect an employer from loss occasioned by the dishonesty of an employee (though in this chapter bonds which are a little broader in nature will also be treated), and is required by banks, trust companies, financial institutions, fraternal orders, clubs, building and loan associations, railroads, street railways, mercantile and manufacturing establishments, insurance companies of all kinds, etc.

By many underwriters this branch of the fidelity and surety business is considered the most interesting, as there are so many peculiar and varying conditions surrounding each class of transaction in which bonds are desired. Rarely are there two financial or mercantile establishments operating on exactly the same lines, or under the same checking system, or where the moral and financial personnel of the employees is identical. These bonds are always very desirable for both the surety company and agent, or solicitor, to obtain; for they can, as a rule, be renewed from year to year with little trouble, and they furthermore constitute a source of income that accumulates very rapidly.

Fidelity Bonds are so diversified and cover such a broad field that they can only be treated along very general lines. As the larger portion of them may be looked upon as desirable risks, the subject will here be discussed rather by emphasizing the negative viewpoints and calling attention to the undesirable features than by commenting at length upon characteristics which are primarily favorable.

DIVISION OF FIDELITY BONDS.

Fidelity Bonds may be divided into three general groups:
1—Bonds proper which protect against dishonesty only.

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2—Bonds which embrace more than dishonesty, such as culpable negligence.

3—Bonds which embrace, in addition to the above, property responsibility, and other contingencies over which the principal may have no control; such as, shortage of grain, damage to goods in custody, etc.

STANDARDS APPLIED TO FIDELITY RISKS.

In the introductory chapter, reference was made to the separation of the fidelity and surety business into the insurance, and credit or banking, features. The bonds treated in this chapter may be classed as the straight insurance division of the business, and the rate of premium is figured on a straight percentage of losses to premiums. As in other branches of insurance, it is necessary for the risk to come up to certain fixed standards.

Briefly speaking, the standards to be applied to the fidelity business may be separated into two groups, moral and physical.

1—MORAL STANDARD.

An investigation is made as to the moral standing of the applicant by obtaining knowledge of his associates, his mode of living, the record of his former employment, his debts and general habits, and his income as compared with his condition in life. In order to secure definite and concrete information upon these points, it is necessary for the surety to make a confidential investigation of the applicant. Experience shows that such investigation can best be handled from the home office, as, in a majority of cases, the persons who can give the desired information prefer, for many reasons, to do so direct to the central office, in order to be sure that their statements will be treated in absolute confidence. It may be well to state, that the course taken by surety companies in making their investigations from their central offices is of an advantage to the agent or solicitor, as it avoids the

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difficulty of his being placed in a false position with his client when an application is declined. The agent does not have to know anything regarding such investigation. There is also an enormous amount of detail work necessary in the investigation of fidelity risks, which, if conducted by an agent, would hamper him in his endeavors to secure business. Another point to be considered, in this connection, is the inadvisability of intrusting to the mails or to the possession of unnecessary persons adverse reports on anyone. The law defines very broadly what constitutes libel and every care should be taken to prevent even remote possibilities of any liability of this nature, which might not only prove expensive to the agent and his company, but would very likely render it more difficult for either one or the other to secure confidential information in the future.

It is hardly necessary to state that if an applicant's associates are of either a low or extravagant nature, or if his mode of living is expensive, and his income, as compared to the condition under which he is obliged to live in view of his occupation, is insufficient, or if he has debts and has not made proper arrangements for liquidating them, or if his general habits are not correct, then the application is declined. It is also necessary for an applicant to receive a good record from his former employers covering a period of at least ten years, if possible. These are generally unbiased and in position to give a very fair idea as to the applicant's moral standing, his mental capabilities and likelihood to fill properly the position for which the bond is required. There are numerous ways in which surety companies secure the required information, but the above will give a fair idea as to what is necessary for an applicant to meet the moral investigation for this class of insurance.

Morally, applicants for Fidelity Bonds can be divided into three groups, and fidelity risks will fall into one of the following:

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- a—Those, who occupy positions of recognized responsibility in the community, in business or professional circles.
- b—Those, who, while not publicly or generally known, fill regular, though minor or secondary, positions in business or professional life.
- c—Those, who have had irregular or unsteady occupations, who are frequently but little known, even to their neighbors and co-workers, and who fill, as a rule, the lowest positions in the commercial world.

The above groups follow closely those which are termed in sociology the upper, middle, and lower classes of society, and a wide field for consideration is presented to the fidelity underwriter, who regards the sociological aspects of his business, and who weighs the needs, the temptations, and the opportunities, or the lack of them, in the station of life from which his applicants may come. For instance, innate respect for the law, the certainty of loss of caste and the dread of disgrace to family or friends have operated to deter from wrong many persons of the first or second groups; whereas, among those classed in the third division few of these powerful incentives to honesty may exist. Instead of having respect for the law, they generally look upon it as a thing only to be feared, and evaded if possible. Where pride of caste does not exist it cannot be lost. In a new neighborhood or among new people few questions are asked: to those who are familiar with the interior of police courts, disgrace has little meaning. Therefore, the relation of an applicant to the many incentives or deterrents to honesty peculiar to his social grade should not be overlooked.

Among the incentives to honesty, one of the strongest is the fact that a man is married and is situated amidst happy and congenial surroundings and leads a normal life. Such risks are less liable as a class to cause trouble to their surety

than single men, who may have greater opportunities to form bad habits and to acquire undesirable associates.

Considerable emphasis also should be laid on the number of persons the applicant has to support in view of the salary he receives, and whether such persons are his wife, children, or near kin. While it is true that certain responsibilities and obligations of this kind operate to make a man more reliable, if the burden placed upon him is too great, in view of his salary or income, these responsibilities may become a temptation to dishonesty, and should be taken into consideration accordingly.

The relation which an employee's resources bear to the demands upon him cannot be made too important in the consideration of a fidelity risk.

2—PHYSICAL STANDARD

The physical side of a risk is concerned with the conditions under which the applicant is to handle money, and with the safe-guards which are thrown around him by the adoption of up-to-date bookkeeping methods with a thorough checking system; such as, counter-signature of checks, frequent auditing, and similar measures.

It may be well to call attention to certain facts in connection with this part of the investigation, namely: that before the inception of surety companies, there was hardly any system of accurate accounting in force, and as a result millions and millions of dollars were embezzled and never discovered by the employer. Owing to the fact, however, that surety companies will not execute Fidelity Bonds unless the employer adopts all possible, proper and reasonable systems of accounting in the conduct of his business, with regular periodical audits, which should be made by outside expert accountants whenever possible, and at least once a year, the introduction of corporate suretyship in fidelity risks has had a very marked effect as a moral factor. Surety com-

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panies in exacting such improved accounting systems with stated audits are not imposing any burden on the employer other than such as ordinary attention to the interests of his business would dictate. Such a course requires from the employee nothing but strict integrity and honesty.

FIDELITY APPLICATION.

In the actual handling of Fidelity Bonds, it is necessary, except in some few classes of risks, that the applicant should sign what is known as a Fidelity Application.* In this application the various surety companies have arranged questions, which are asked for the specific purpose of bringing out the essential information, or the source from which such data can be secured, as outlined in the general plan of investigating fidelity risks. It is desirable for an agent or solicitor, when taking such an application, to be sure that the applicant has answered in full each and every question. A verification should be made of the applicant's statement as to his worth and resources, other than the salary received from his employer; and a clear and accurate list of his previous places of employment, if any, should be given. The failure to receive replies from former employers or discrepancies in dates, as given by the applicant, cause him to be looked upon with suspicion, and when taken into consideration with any other unfavorable point in the investigation, may lead to the declination of the risk for no other reason than the carelessness of the applicant in not giving full and accurate data. Inquiry should be made of the applicant, under the Schedule of Debts, as to the cause of such debts and the steps which have been taken for their liquidation. There should be no objection on the part of the applicant to giving a full history of his life and surroundings, as the confidential use of such information is recognized by all surety companies as the keynote to their successful investigation of fidelity risks. In this

* See Appendix.

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particular it may be pointed out that the relation in which the company stands to its applicants is similar to that of a lawyer and his client, and to a large extent the well recognized ethics of the legal profession have been adopted by surety companies for guidance in their relations with applicants.

As the information necessary in the investigation of the various classes treated in this chapter differs materially, it is the practice of surety companies not to have one general form of application to be taken in all fidelity cases. While it is most desirable to get as full a statement from an applicant as possible, in some instances shorter or more condensed forms are permissible.

Different applications ordinarily are used for the following lines of business:*

- 1—Banks, trust companies and financial institutions.
- 2—Fraternal orders.
- 3—Mercantile, manufacturing, insurance and other miscellaneous business.
- 4—Railroads, street railways, steamship and express companies, when such institutions have an application for their own use, the investigation on which is open to the inspection of the surety.

EMPLOYER'S STATEMENT.

As a fidelity bond is a contract with an employer to protect him from loss under certain conditions, it is necessary for him to sign what is known as an Employer's Statement, which should be executed either by the employer or someone duly authorized to do so on his behalf, bearing the seal of the company, if the employer is a corporation, or if, an individual or unincorporated body, a properly witnessed and dated signature. Too much emphasis cannot be laid on the importance of the fact that the Employer's Statement is made

* See Appendix, pages 176-187.

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a warranty under the bond, and must, therefore, be received by the surety before the bond can properly be issued.

It is of absolute necessity in filling out such statements that the duties of the applicant should be fully explained, and that his authority and latitude in handling money should be plainly stated. At the time of taking such statement, it would be well for the agent or solicitor to see if possible, that every arrangement is made for an adequate checking of the applicant's expenditures and also that there are frequent and regular examinations of his accounts. It is desirable, in fact nearly always imperative, that such an examination should be made immediately before the date of the bond in order to prevent the bond from becoming retroactive to the detriment of the surety.

For the convenience of stating plainly and in detail the conditions under which the various employees are operating, separate forms of Employer's Statements are commonly used for the following general lines of business:*

- 1—Banks, trust companies, and financial institutions.
- 2—Fraternal orders.
- 3—Mercantile, insurance and miscellaneous classes of business.
- 4—Railroads, railways, steamship and express companies.

In large lines of business where there are various positions covered and the duties of a number of employees are identical, one general statement covering each separate division or class of employees is frequently used.

CLASSIFICATION OF FIDELITY RISKS.

In order to give an idea as to the varying conditions with which the various classes of business treated under this chapter should be considered from an underwriting standpoint, it is deemed expedient to divide fidelity risks as follows:

* See Appendix, pages 180-185.

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1—	Mercantile	a—Inside employees.	- Officers. - Managers. - Bookkeepers. - Cashiers. - Clerks. - Salesmen.
	and		
	Manufacturing.	b—Outside employees.	- Traveling salesmen. - Collectors. - Agents on salary. - Agents on commission. - Drivers.
2—	Insurance.	- a—Regular lines. - b—Industrial Insurance.	- Officials, clerks, etc. - General agents. - Special agents. - Local and Sub-agents.

- 3—Banks, trust, and financial institutions.
- 4—Stock, grain brokers, and private bankers.
- 5—Railroads, street railways, transportation, and express companies.
- 6—Telephone and telegraph companies.
- 7—Electric light, heat, power, water, and gas companies.
- 8—Fraternal orders.
- 9—Labor unions.
- 10—Building and loan associations.
- 11—Clubs (social, etc.).
- 12—Business and charitable associations, etc.
- 13—Amusement enterprises.
- 14—Miscellaneous mercantile lines of business.

1—MERCANTILE AND MANUFACTURING

Fidelity risks on behalf of mercantile and manufacturing establishments can, for the purpose of explanation, be treated under two classes—inside and outside employees.

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The term "inside employee" is applied to those employees who are stationed at the main house, or those in a branch house who are under the direct supervision of a superior located at such branch. The term "outside employee" is used when the employee is working outside of the house, either on the road, or the street, or in charge of a branch house or office. The former are regarded as less hazardous than the latter, as a much closer check can be placed on an inside employee, even when the formal surveillance is less rigid, as he is under the constant observation of his superiors. This has a good moral effect.

a—Inside Employees.

Officers and Managers.—The most desirable business under this heading consists of the bonds of officers of corporations where there is a satisfactory checking system, particularly when such men do not hold dual positions; such, as secretary and treasurer, or president and treasurer. The check should consist of very limited individual powers in the expenditure of money, and regular and frequent examination of accounts. The moral standing of these employees is usually very good, and the applicants frequently own property.

The business of inside managers can be classed with officers of corporations, but care should be taken to see that the authority given such men is not too great. By "inside managers" is not meant managers of branch houses whose location is away from the main office. These are classed as outside employees, although those under them are usually grouped as inside employees.

Bookkeepers, Cashiers and Office Clerks.—The most important considerations attendant upon these applicants are to see that there is a frequent and adequate checking system in use, and that the surety gets full and detailed information as to the former record of employees. This record is particularly desirable in these cases, as the applicant for a bond of this kind is not usually an owner of property. If, how-

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ever, he has a thoroughly good record in former positions, and has never been guilty of dishonorable or careless conduct, he should be a desirable risk. The former employers of such applicants are likely to give a perfectly frank and honest report. This cannot always be obtained from the references named, as these are usually personal friends.

Clerks and Salesmen.—These employees, when coming under the classification of “inside employees” and when good business methods are in effect, may be considered in the same light as bookkeepers, cashiers, and office clerks. Business under this heading is usually found in large concerns, and it includes department heads in wholesale and retail establishments, together with receiving and shipping clerks, office or storehouse boys, passenger elevator employees, watchmen, porters, janitors, etc.

Certain lines, however, must be looked upon with disfavor, as the experience of surety companies has proven them to be very dangerous. The hazardous lines include among others, packing houses, jewelery houses, loan and chattel mortgage companies, as well as certain clothing houses having branch stores.

b—Outside Employees.

Traveling Salesmen.—These employees are the most frequent examples of this class, and great care should be exercised in underwriting such risks. The class contains more prohibited lines than any other, especially when the salesman is authorized to collect. This arises from the fact that these employees are beyond close supervision, and in a large measure in a position to become suddenly short of funds with little chance of securing the same [being away from home and friends]: the result of this is that their own funds are often intermingled with those of their employer.

Traveling salesmen for liquor houses, jewelry or installment firms of any kind, publishing houses, picture and portrait concerns, cigar manufacturers, breweries, wringer or sewing machine companies, salesmen who canvass the country

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or small towns with a team carrying samples or a stock of goods, salesmen for drug and medicine houses, and those handling tea, coffee and spices are looked upon with more or less disfavor. Traveling salesmen in any line, who are paid on a commission basis, should only be written in rare instances, as when they are property owners. When they are paid a straight salary and the line of trade is approved, they may be acceptable risks.

When traveling expenses are paid by the employer, it is a point in favor of the advisability of accepting the risk, and this practice renders more desirable liquor, brewery and cigar salesmen when paid a sufficiently large salary and expenses, but only when a high rate of premium can be secured. Salesmen who are authorized to collect should only be considered when collections are remitted promptly and frequently to the employer, and statements from the employer are sent out at short intervals direct to the customers. Fidelity Bonds, as a rule, are not intended to cover samples carried by traveling salesmen, and when such is the idea of the employer, a definite understanding should be reached as to this feature.

Collectors.—These employees must be scrutinized most carefully. The less desirable lines are surrounded with about the same elements of risk as under the caption "Traveling Salesmen," and for the same reasons. For the business to be acceptable, the applicant should be paid a straight salary and turn over collections daily, or at short intervals, and statements should be mailed by the employer to his customers with reasonable frequency. Collectors for installment houses are considered especially hazardous, chiefly on account of the class and standing of the employees.

Agents on Salary.—The most desirable of these risks are those persons permanently located and handling a staple or regular commodity of merchandise, with proper and frequent intervals of remitting, checking, and auditing accounts. There is frequently great hazard in bonding those agents who are responsible for consignments; such as, manufacturers' agents,

who receive goods where the payment for same is guaranteed by the surety. In these cases there is usually a special contract between the employer and the agent, which agreement should be scrutinized carefully to ascertain the true liability thereunder.

Agents on Commission.—This business is practically prohibited, for the reason that experience has shown that the human race as a class is sanguine, and that a man selling on commission is apt to expect that this commission will be larger than it finally is on the day of settlement. He gauges his mode of living beyond his means, with the result that he is often short in his accounts without dishonest intention. These risks, therefore, must be examined carefully to see that a proper checking system is in vogue to prevent such employees from getting behind in their remittances, and also to enable them to know exactly what they are making. If an agent working on commission is a man of outside means, or, has a fixed income apart from his commissions, the risk may be looked upon favorably, if in an approved line of business.

Drivers.—The danger of writing bonds of this class is very great. A slight distinction can be made, however, between drivers who handle money and those who do not. Drivers of laundry and supply houses are practically prohibited. By supply houses are meant towel or linen supply concerns or any line, where the article supplied remains the property of the employer, and loss or destruction of same may by any possibility be charged to the driver. Drivers for ice, bakery and confectionery concerns are somewhat less hazardous. Other delivery drivers; such as, employees of delivery contractors, drivers and bundle boys employed by department and large retail stores, and drivers for express companies, are generally considered in connection with the entire working force of such companies.

The premium rate on drivers is always high, and the business is not generally desired, on account of the moral hazard,

as a rule, not being good and the extreme difficulty experienced in obtaining a complete record of the men of the class usually holding these positions. Generally, drivers have no previous record on which the surety can base any experience, and it has been found next to impossible to adopt a checking system which will prevent small defalcations.

2—INSURANCE.

a—Regular Lines.

The general statements, as previously outlined in dividing mercantile and manufacturing risks into inside and outside employees, can be referred to in this division.

Officials and all clerks employed in main offices, or in agents' offices and bonded to the agents, may be considered as inside employees, and the general treatment of these positions under the head of "Mercantile and Manufacturing" risks will apply here.

Outside employees can be enumerated and divided as follows: general agents, special agents, and local or sub-agents.

For purposes of distinction, it may be stated that a general agent is one who reports direct to his home office without the supervision or direction of any intermediary. District, local or sub-agents are those reporting through a general agency. They are usually under the direction of the general agent. Special agents are those employed by the home office or by general agents for the purpose of exercising field supervision over the respective agency plants.

General Agents.—General agents are desirable risks if they be men of established reputation in the insurance business, especially if they have means and receive a salary, or have an assured income from their business by reason of renewals, or if the bond required by them does not guarantee that they are responsible for uncollected premiums. The general policy of surety companies is not to execute bonds of employees under this class except after a most thorough investigation.

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The moral, financial and business standing of the applicant must be beyond reproach.

Special Agents.—Special agents, whose duties are limited to the inspection of risks or partake of the nature of those of traveling auditors, are usually acceptable risks. When the term “special agent” means one collecting money, the bonds are not as desirable, although this depends upon the conditions under which such agents are employed. The term “special agent” is applied, however, to men performing such a great variety of duties, that they must be considered from the standpoint of their duties rather than that of title. The designation is ordinarily applied to those indicated in the beginning of this paragraph, and where such is the case the same general conditions surrounding mercantile employees apply.

Local and Sub-Agents.—This business is rarely desired, particularly if the principal under the bond reports through another agent, and if the bond has to be written in favor of the insurance company. When these risks are taken, it is usually in connection with the entire agency force of the particular company; the business in which instances must be considered as part of the entire line and special arrangements made concerning the same.

b—Industrial Insurance.

This line is regarded by surety companies generally as one which must be approached very carefully. The checking systems in use, the principles of operation and the class of employees are the three factors which do most toward making the line an expensive, if not frequently an unprofitable one to the surety. It is almost impossible to prevent numberless small defalcations. Other shortages are constantly occasioned through lapses on policies and failure to collect premiums, although this may constitute no actual dishonesty on the part of the agent. As these two causes result in considerable loss to the industrial insurance companies, it is their prac-

tice to require a bond which will cover them. In a great many cases the surety is obliged to pay for premiums which the agent credited to the policyholder but did not collect, and as this is an infraction of rules, rather than an act within reach of the law, it is almost impossible to prosecute in such cases. However, when an industrial company uses a thoroughly effective checking system, and will accept a restricted form of bond covering no more than larceny or embezzlement, the business may frequently be written at a profit, although the premium rate must necessarily be high.

3—BANKS, TRUST, AND FINANCIAL INSTITUTIONS.

No class of fidelity business has been more sought after. Most banks are required by banking regulations to bond their employees, and where such is the case the Fidelity Bond is a necessity rather than merely a reasonable business precaution, as in many other instances. Where bonds are necessary their solicitation is infinitely easier. The moral standing of men connected with banks is sufficiently high to make them desirable as risks. They are usually owners of property, especially the officers, and the salaries generally paid are large enough to enable them to live comfortably and to save, if they be so inclined. The bookkeeping systems, although they vary materially, are as a rule better than in mercantile establishments, and generally provide for an adequate check upon the employee by means of a counter check by some other employee, together with frequent examinations and verification of funds or accounts.

Where a bank or trust company is well managed, it is an excellent risk; but when any of the above points are found lacking, it must of necessity be looked upon as hazardous. This is on account of the large amount of money involved, for bank losses, when sustained, are usually large. To offset this, however, the salvage obtained on these losses is also large when compared with other lines of fidelity risks, and

this fact is reflected in the rate quoted upon this class of business.

The chief points to be considered in these risks are:—

- a—The applicant's social and moral standing.
- b—His freedom from all vices.
- c—The property holdings of himself or his family.
- d—The salary received (whether it be adequate to maintain him in the position which he holds in the community).
- e—The efficiency of the checking system in use, and the frequency of examinations and audits.

The first four points set forth above may be regarded in the same light as they would be were the risk purely mercantile, with due regard for such special social and financial demands as may be made upon a bank employee.

The fifth point presents a situation somewhat different from the other lines, and is of the utmost importance both to the surety company and the bank. There is a growing tendency on the part of the banks not to rely upon and accept as sufficient reports or examinations of public bank examiners, and up-to-date banks are adopting systems of thorough audit by outside expert accountants at reasonably frequent intervals. Without reflection upon the average public bank examiner, it is obviously a physical impossibility in most instances for them to make thorough examinations of the large number of banks under their supervision. Surety companies, therefore, regard with favor an institution which regularly engages the services of a public accountant, though there may also be an examination made by a special committee of directors. In this connection, it should be noted that experience has shown the chief cause of defalcation on the part of bank employees to be speculation; therefore, when an unexpected and thorough audit is likely to be made at any time, it has a marked effect in checking this practice.

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The size and location of a bank plays an important part in the determination of the advisability of accepting the risk. Thus, a large city bank having a large enough number of employees to provide a counter-check at every point, and doing a sufficiently large business to afford to adopt every physical precaution against loss, is necessarily looked upon with more favor than the small institution, which is run usually by not more than three or four men, and frequently by one only. Surety companies generally avoid the "one man" institution, on account of the employee's latitude in all the bank's affairs. The only advantage which such business presents is due to the normal manner of living in small towns and also to the fact that the employee of such a bank is not usually surrounded by the opportunities for speculation and extravagance that affect the employee of a city bank. Experience, however, has shown that this factor does not play so important a part as it might seem to do at first consideration, for by means of injudicious or unauthorized loans to close friends or neighbors, with whom frequently country bank employees have other business interests, the loss ratio is higher than in those banks where the individual powers are limited.

The employees of private banks will be treated under the head of stock brokers, etc., as the conditions surrounding the latter class apply more particularly to private banks.

4—STOCK, GRAIN BROKERS AND PRIVATE BANKERS.

Bonds of employees engaged in the above lines of business are uniformly looked upon with disfavor, except in instances where the employer is well known and of long standing. When the business is along the line known as "bucket shops," or is operated solely on marginal speculation, the bonds are rarely written by a surety company, if it be aware of these facts. It is true, however, that in some cases where the deposit feature is pre-eminent, and the stock or bond business is for the purpose of investment rather than speculation,

the business increases in desirability in accordance with the recognized standing of the house. The rules and regulations of the particular exchange under which the firm operates should be considered in connection with the risk. The undesirability of most of this business rests in the fact that, although the moral standard of employees in the better class of these concerns is equal to that of those of national or state banks, the presence of a "ticker" in the office causes a temptation to speculate, while the less rigid checking systems generally in use give the employees every chance and afford the greatest incentive "to play the market." Such practice has usually one result, the use of another person's money. The rate on these lines, when they are written at all, must, therefore, be higher than on the ordinary bank clerk.

5—RAILROADS, STREET RAILWAYS, TRANSPORTATION AND EXPRESS COMPANIES.

Business of this character is rarely offered on individual risks, but the entire force of a company or system is usually written at one time and on a form known as a Schedule Bond. Where this is the case, and an employer is paying a large sum in premiums to a surety company, it is only natural that he should give closer attention to and make a greater study of the protection for which he is paying than does the employer with but two or three risks.

It will be found, therefore, that where this business is concerned, the assured will in many instances submit for execution a form of bond prepared by his own attorneys, or legal department, and will ask for certain methods to be pursued in handling his line. It has been the practice of surety companies in the past to meet these special conditions, and it is, therefore, very difficult to make general statements on the subject of this business. It may be stated, however, that where the volume of business is great and the premiums large, the employer will desire special forms put into print for his particular use, and, therefore, the method of handling

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the business, of assuming and cancelling risks, of paying premiums and computing the return premiums, of filing and adjusting claims, and in fact all of the many details, should be arranged and clearly understood before the line is taken on.

6—TELEPHONE AND TELEGRAPH COMPANIES.

Practically all that is true regarding special conditions in the writing of the bonds of railroads, street railways, etc., is true of the business of telephone and telegraph companies, and especially so of the latter. There are, however, a number of small telephone companies operating chiefly in the country districts, and where these are concerned, their operations should be looked into most carefully. Many of them are conducted along co-operative lines, and when such is the case, the chief item for consideration is the method and frequency of checking those employees who handle money.

7—ELECTRIC LIGHT, HEAT, POWER, WATER AND GAS COMPANIES.

Bonds written in favor of any of these companies are likely to be in large lines, and it frequently happens that several or all of the various commodities are supplied by or under the control of the same company. Similar conditions affect this class of business as apply to the ordinary mercantile lines.

8—FRATERNAL ORDERS.

The officers of fraternal orders, as a rule, are selected from their fellow members on account of their special fitness for positions of trust, while an "esprit de corps" exists in most lodges which causes pride to be taken in the good record of such a body and creates a great desire to avoid unfavorable publicity. These facts serve to make the loss ratio upon bonds in favor of fraternal orders comparatively low, and the business is, therefore, very much sought after. A great many of the shortages which occur never come to the knowledge of anyone outside of the lodge, while in some cases,

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where the surety may be notified, the fellow members of the defaulting officer will themselves make good the loss in order to prevent prosecution or even publication of the existence of dishonesty in their organization. The amount of salvage obtained where claims are made in this class of business is consequently great. As comparatively small amounts are usually involved and a close check maintained upon receipts and expenditures, in addition to a thorough examination of accounts, the business is properly entitled to the comparatively low rate at which it is generally written.

Fraternal orders may be considered as of two varieties:—organizations where social or similar features are pre-eminent, and purely beneficial orders operated along insurance lines. Statistics show that the latter class is more hazardous than the former, and that they must be underwritten with more care. This difference arises chiefly in the fact that the latter are operated for profit rather than from a purely fraternal motive, and also because of the fact that the amount of funds handled is greater than in the former.

New orders, or those in which the dues or assessments are unusually low, should be looked into very carefully; and in all instances, where a large volume of business is offered, it should be accompanied by the surety history of the organization, together with full information as to its origin and purpose. With these facts satisfactorily established, an investigation should be made as to the standing of the men at the head of the order to be certain that its objects and purposes are legitimate and not of the "mushroom" variety.

9—LABOR UNIONS.

Taken as a whole, this business has in the past been a source of expense rather than a profit to most surety companies which have written it. This is especially so in certain localities, principally on account of the personnel and the secondary objects of the organizations as conducted to-day. Without criticizing the fundamental ideas upon which unions

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are organized, as a matter of fact, these principles quite unfortunately are frequently subordinated to other ends which make the organizations, at times, a menace to business rather than a helpful adjunct. From the surety's standpoint the offices are frequently filled by men who are selected from a very undesirable class of citizens, so that many minor although at times important positions are filled by men whose sole aim is personal advantage rather than the general good of labor in its relation to capital. This makes itself very evident in times of labor disorders, strikes, or lockouts, when the members are contributing to an emergency fund which amounts frequently to a large sum. Owing to the authority given at such times to the officers of unions and to the general disorder and confused conditions that exist, the temptation to use these funds is very great, particularly if the man bonded is cramped financially by lack of work.

Statistics show that the amount of salvage on this business is practically nil, for there is no special pride as to the integrity or standing of the union, as would be the case were labor unions conducted on the fraternal order basis. Therefore, these risks, if written, should be considered strictly upon their individual merits, and it is reasonable to assert that unless the men bonded are owners of real property and have family ties and responsibilities, the business, if taken, will result in a net loss.

10—BUILDING AND LOAN ASSOCIATIONS.

The business offered by these organizations can be, if properly handled, as profitable and as satisfactory as any in the fidelity line, for it presents fewer complications of conditions. The effective checks and safe-guards generally thrown around the officers, the fact that they are in the majority of cases men of standing and prominence in their locality, frequently being owners of real estate and having good incomes from their regular lines of business or employ-

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ment, combine to make the bonds desirable. There is hardly a town in the country in which there are not one or more of these organizations, and while to some extent personal surety is in vogue, the business is one which an agent or solicitor should never overlook.

11—CLUBS—SOCIAL, ETC.

This business is written with caution by surety companies, chiefly on account of the authority allowed the employees of such organizations and the lax checking systems in common use. Bonds on behalf of stewards are especially hazardous, because their opportunities to commit peculations are extraordinarily great. Most of them are given full authority in buying provisions and supplies, and frequently pay for the same from a fund in their possession upon which there is no adequate check. In many cases they augment their salaries by means of a percentage on the goods they purchase and count upon such income in estimating personal expenses, which is very apt to bring about a shortage sooner or later. Often, too, they have charge of provisions, liquors, etc., with the opportunity of disposing of them in small quantities to their personal advantage. It is this feature which renders the risks of stock and supply clerks in clubs undesirable in most instances.

The bonds of office employees are usually acceptable, if surrounded by features which afford the surety company reasonable protection, and in some cases where the check is complete, the bonds of clerks in charge of and connected with supply and store rooms may be written.

12—BUSINESS AND CHARITABLE ASSOCIATIONS OTHER THAN FRATERNAL ORDERS AND SOCIAL CLUBS.

This group embraces charitable and philanthropic organizations, business and professional men's associations, chambers of commerce, boards of trade, and all bodies formed for the

advancement of mutual interest though not necessarily for financial profit. The business is sought after, as the officers frequently serve without pay, and are men of high standing. The feature which should be looked into most carefully in connection with such risks is that of the limitation placed upon the disbursement of funds. As a rule, the funds are usually controlled by one man, and if this condition exists and cannot be altered, it should be ameliorated as far as possible by thorough and frequent examinations.

13—AMUSEMENT ENTERPRISES.

Theaters, skating rinks, summer resort parks, etc., are considered under this title. As the conditions under which money is handled in these enterprises vary so greatly, no general rule can be laid down. Although this business is certainly more than usually hazardous (owing to the environment, the moral hazard is not good), and is rarely solicited by surety companies, it is possible, however, to provide a sufficiently effective checking system in some of these lines to enable them to be written with profit.

14—MISCELLANEOUS MERCANTILE.

Under this title may be grouped various lines of human endeavor, some of them extensive and others restricted as to their fields of operation, which are surrounded by conditions so peculiar to themselves, from a surety viewpoint, that in a general exposition, they cannot be treated individually. Among them may be mentioned the grain industry of the Northwest, the lumber and oil business which is widely scattered, the sugar, cotton and tobacco business of the South, and numerous smaller interests which have their peculiar features as far as their relation with surety companies is concerned. Under this head, also, come the various instances of Fidelity Bonds which are required for persons occupying positions of trust where the conditions calling for suretyship are out of the ordinary.

As a general thing, most of these risks will require the execution of a bond of the kind mentioned under numbers two and three of the "Division of Fidelity Bonds" at the beginning of this chapter. Where unusual risks are presented reference should be had to the subject of "General Fidelity Bond Forms" which follows.

GENERAL FIDELITY BOND FORMS.*

(Excluding Bank Bond Forms, see page 44.)

Fidelity Bond forms may be divided into three general kinds. Individual, Schedule and Blanket.

1—*The Individual Bond Form.*—This form is drafted to cover one person in his special position. It usually requires the signature of the employee. It is used by many concerns, even though they have a large number of employees, when they desire separate instruments for each employee, or when the period covered by the bond begins and ends at different dates.

2—*Schedule Bond Form.*—A Schedule Bond is written for the convenience both of the surety and assured in cases where the latter can or does have all bonds of his employees expire simultaneously. The various amounts for which the employees are bonded are shown opposite their names on a "schedule" or list attached to the bond and becoming part thereof. This form is not signed by the individual employee and can be used by concerns employing three or more persons. The Schedule Form should not be confused with the Blanket Form.

3—*Blanket Bond Form.*—The Blanket Form of bond has practically been eliminated by surety companies. It was a form drawn to cover any and all employees of a concern, regardless of the positions held by them, for the full amount specified in the bond, and thereby differed from the Schedule Bond in

* See sample form of Fidelity Bond, Appendix, pages 187-194.

which the employees are listed and the specific amount of liability shown for each particular employee. It has practically gone out of existence, having been superseded by the Schedule Form, owing to the fact that the latter is more economical to the employer and furnishes him with the protection he needs in case of each employee; whereas in a Blanket Bond the liability shown in the bond is many times in excess of the amount required for minor employees. Nevertheless, the premium was computed on the total amount of liability, irrespective of the actual liability on the minor employees.

FURTHER DIVISION OF FIDELITY BOND FORMS WITH RESPECT TO THE GENERAL GROUPS.*

1—FORM OF FIDELITY BOND PROPER, PROTECTING AGAINST DIS- HONESTY ONLY.

In the first group is placed the form of bond used in the majority of fidelity cases. This is the form that all surety companies endeavor to use when called upon to assume suretyship. While in minor particulars the forms of different companies vary, they are similar in the essential features.

The bond form itself closely approximates a policy of insurance, and the initial liability of the surety is predicated upon at least one and usually two requirements, namely: the payment of the premium, and the filing by the employer with the surety of certain certificates and statements relative to the duties of the employee and the plan upon which the business is conducted.

On the subject of payment of premiums little need be said, as this feature of corporate insurance or suretyship is thoroughly understood, and an agent who has at heart the interests of his clients will allow no delay in collecting prem-

* See pages 9-10, supra.

iums, thus making the instrument which he has delivered a valid one upon which the assured may make recovery for the loss he may sustain.

The statements required of the employer which constitute warranties under the bond are in many instances not given proper consideration, and too much stress cannot be placed upon the accuracy and detail with which these statements are to be made and the proper form in executing this instrument. As the bond is essentially a contract involving the payment of money, of which the premium is the consideration, it involves certain obligations on the part of the assured as well as the surety, and in order to make a statement of these obligations easy to comply with, the surety asks the necessary questions categorically upon a form prepared for the purpose of giving the assured the least trouble in replying. The assured should reply to these questions with frankness, clearness, and above all, with absolute truthfulness, for failure on his part to have conformed with the terms of the warranties which he himself has made will very properly furnish ground for denial of liability on the part of the surety. It is, therefore, important that every detail of the system be lived up to, and if it becomes necessary to effect a change in the same the surety should be informed of such change, and its assent obtained.

Aside from the above features, the usual Fidelity Bond differs from the old common law form, or that form of bond which carries with it no conditions or provisions for the protection of the surety, principally, in that the former is a term instrument and the liability of the surety covers only the acts of the principal committed within a certain specified period, which are discovered and notification thereof filed with the surety. To provide for continuing the guarantee, a provision is inserted, usually by means of a separate instrument designated as an extension or continuation certificate, the issuance of which is optional with the surety, just as its acceptance is optional with the assured.

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Clauses Usually Found in Fidelity Bonds.*

In addition to the above, the usual form of Fidelity Bond contains the following clauses, which may be briefly explained as follows:

Termination by Claim.—When a claim is made under a Fidelity Bond, it is only right and proper that the surety should be relieved of further liability on account of the defaulting employee as to any act or acts committed subsequent to the discovery of the loss which was the basis of the claim. The purpose for which the bond was taken out has been fulfilled, or is in process of fulfillment, and the premium charged is based upon the assumption that the surety will not continue liability on behalf of an employee who has once betrayed a trust.

Notification of Conduct.—The notification of conduct clause provides that the surety shall at once be notified where knowledge comes to the employer that the principal under the bond is engaged in speculation, gambling, or any disreputable and unlawful habits or pursuits. The justice of this can readily be seen, when it is considered that the obligation is assumed upon the decision of the surety that none of these things exist in the principal, as well as on the ground that the employer does not wish in his service one who is in any way below the standard of morality or honor set by the surety. In order to protect itself in event of the failure of the employer to comply with these requirements, the surety usually inserts a provision to render its liability void if the employer shall entrust the employee with money, securities, or other property, after having discovered an act of dishonesty, or having condoned an act for which the surety might be liable. This provision is sometimes made to apply to any settlement made with the employee for a shortage without previous notice to and consent of the surety.

* See specimen Fidelity Bond Form, Appendix, page 187.

Proportionate Loss.—This is a well-recognized principle of insurance, and it is easily understood why it is necessary to insert a provision which would prevent an employer from obtaining more than one recovery on account of the same loss.

Cancellation.—In order that the surety may avail itself of the information furnished it under the "Notification of Conduct" clause, or of any one of a number of conditions which might arise around any given risk, it is necessary that a provision for cancellation be inserted. The period which must elapse before such notice becomes effective varies with different companies. In some instances it is immediate, and in others, five, ten, fifteen, thirty, and even sixty or ninety days, the circumstances being governed by the nature of the risk and of the line of business in which it is assumed.

It is customary, and in some states, compulsory, for the surety, when cancelling, to return to the assured the premium paid less a pro rata part for the time the bond shall have been in force, and to remain liable for any acts committed prior to the date of cancellation. While in many forms there is no provision inserted for cancellation by the assured, it is universally permitted, and upon such cancellation, it is customary to return that part of the premium considered unearned in accordance with the standard short rate tables.

The Arrest Clause.—One of the most important features of the ordinary Fidelity Bond is the "Arrest Clause," which requires that the employer shall, when required by the surety, apply for a warrant for the arrest of a defaulting employee on account of whom claim has been filed. It is usually agreed that the cost of such proceedings will be borne by the surety, and the assured is only required to give his aid, information, and moral support to bring the defaulting employee to justice or to aid the surety to obtain reimbursement or salvage for any loss which it may have paid.

Limitation of Suit.—As the statutes of limitation of the various states exhibit an amazing lack of uniformity, and be-

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cause a claim reserve maintained for one year on a loss in one state might have to be maintained for twelve years in another, the management of surety companies make it necessary that they incorporate in their bond a specified period within which suit may be brought after claim has been filed. Like the cancellation period, this term is not constant, but varies from six months to one or two years. It is a provision which is almost necessary if surety companies are to do business under the rulings and restrictions placed around them by the Federal, as well as the various state laws.

The Extent of the Guarantee.—No matter what the provisions or lack of them in a Fidelity Bond may imply, the most important feature of the bond is included in the words which are used to define or limit the surety's liability. The word "dishonesty" is a very broad term, and in the several definitions of it included in the dictionaries, it may cover any breach of trust or confidence, and even a violation of moral principles where trust or confidence has not been reposed. It is necessary, therefore, to restrict the guarantee by the use of such words as larceny, embezzlement, fraud, etc., and while some companies may draw their bonds to cover "personal dishonesty" or "fraud and dishonesty," it is the common practice to guarantee only against larceny or embezzlement. If other words are used, they are not intended to create a broader guarantee, and are limited and defined by the clause "amounting to larceny or embezzlement."

The necessity for this restriction is explained by the fact that one of the greatest protections which a surety has is the right of criminal prosecution. In practically all states larceny and embezzlement have been defined and classed as crimes or misdemeanors; whereas, the mere word "dishonesty" and even "fraud" may sometimes fail to constitute an offense for which the perpetrator could be criminally punished. An underwriter should in all cases familiarize himself with the laws of each particular state on these points. This is

especially true of an agent who may at any time be called upon to adjust a fidelity claim. It sometimes happens that a Fidelity Bond will guarantee faithful performance of duty, compliance with a contract of employment, or some other feature, but these terms are rarely, if ever, incorporated in the standard fidelity forms of surety companies.

2—FORM OF BOND COVERING MORE THAN DISHONESTY.

Where an employer wishes a guarantee against loss on account of something more than defined "dishonesty," surety companies writing such bonds are entering into a branch of the business upon which it has, as yet, been impossible to obtain accurate statistics. The most usual requests of this character are for the incorporation of a clause in a Fidelity Bond to cover, in addition to dishonesty, culpable negligence or noncompliance with certain rules or regulations promulgated by the employer.

The Culpable Negligence Bond is in common use where the operating employees of a common carrier are covered. This clause is requested by railroads, street railways, steamship and express companies. If what shall constitute "culpable negligence" is carefully and properly defined in the bond, and an adequate premium charge is obtained, there is no reason why a surety company cannot write such bonds with profit, although in so doing, they assume a risk which more resembles a Faithful Performance of Duty Bond. (See chapter IX.) The inability to proceed against an employee who has caused a loss by negligence except through a civil action, and the fact that most employees covered under such a guarantee are not, as a rule, owners of property makes the amount of salvage obtainable very small, and the difficulties of collecting it great.

A clear idea of the circumstances under which culpable negligence may be made part of a surety company's guarantee can best be imparted by giving the following definition found in

a bond, which is as broad as experience in bonds of this character indicates that it may safely be.

“‘CULPABLE NEGLIGENCE’ as used in this bond shall be held to mean only gross carelessness or aggravating and inexcusable negligence in the performance or omission of duties. The term ‘negligence’ as limited by the word ‘culpable’ being intended to mean wilful negligence of the employee, resulting in pecuniary loss, from his deliberate assumption of risk, in violation of instructions, and with foreknowledge that his so doing might cause pecuniary loss to the employer. Mere oversight, forgetfulness, temporary loss of memory, error of judgment or failure to recognize the necessity or wisdom of any course of action shall not be so construed, and it shall be the burden of the employer to reasonably prove that the employee was not mentally or physically incapable, or of insufficient education to efficiently perform the duties assigned to such employee and the company shall not be responsible for any loss due to the failure of any employee to properly compute or collect freight or other charges, unless such failure be caused by culpable negligence on the part of said employee as herein defined, and the company shall not be responsible for proper accounting for missing tickets, unless such tickets are actually used for passage; the company shall not be liable for any loss or damage occasioned by the insolvency of any bank, depository or other institution where moneys, securities or other property may have been or are deposited, or loss or damage occasioned by failure, neglect or omission, to withdraw said moneys, securities or property from such bank depository or institution, prior to such insolvency; nor for any other cause or causes save those specifically set forth therein.”

The question of guaranteeing the compliance with rules or regulations or, perhaps, a constitution and by-laws is one that depends absolutely upon the nature of the requirements therein. If any element enters into them which places compliance in any particular beyond the individual control of the principal under the bond, it cannot be considered in this connection. If, however, the guarantee following out their provisions is simply a physical act, not involving special judgment, knowledge, ability, skill, or accuracy, the bond is one which a surety could execute.

3—FORM OF BOND COVERING EXCEPTIONAL CONDITIONS.

Under this heading are grouped bonds which cover, in addition to dishonesty and negligence, property responsibility or other circumstances over which the principal may have no control. From the surety standpoint, the usual bond form required under this head is generally so broadly drawn as to cover the faithful performance of duty in connection with handling funds. The phrasing of such bond is frequently such as to require the most skillful underwriter to be able to determine the conditions under which loss may arise. In its usual application it involves a guarantee that all funds passing through the hands of the principal, actually or theoretically, will be turned over to the person or persons authorized to receive them. If these funds are in a large amount, it is probably necessary for their proper handling that the principal require the assistance of subordinates and bring into use a bank depository, which may be selected by himself. Such bonds also contemplate not only the faithful performance and proper accounting as regards money, but the proper keeping of records, the exercise of judgment and discretion in administering the duties of the office guaranteed, and even in some instances the avoiding of legal entanglements between the employer and outside parties. The circumstances which may arise under a bond of this kind and cause loss to the surety are too varied to be discussed. This business, however, has many speculative characteristics which make it difficult to write on a true insurance basis.

Where the question of the proper conduct of a subordinate is concerned, the bond may frequently be arranged by requiring that such employees in turn give bonds to their superior, while depository liability may be somewhat removed by requiring that the bank be designated by the employer. But even with these two elements of hazard eliminated, the bond is still open to claim from other contingencies.

Instruments of this character are frequently required by fraternal orders, and where such is the case the premium at which it may be written must be at least 100% greater than that required for the standard restricted fidelity form.

Certain lines of business require, to meet the peculiar conditions surrounding them, special forms of bonds which shall guarantee more than honesty only. A notable example of this is the form in common use in connection with the grain elevator industry. In that section of the country where grain is most largely produced, the producer conveys it to the nearest warehouse for storage, and eventual sale and shipment. Upon depositing this product, he receives from the agent or custodian a receipt (usually negotiable). In bonding an agent receiving grain and issuing such receipts, it is customary to require one which shall cover loss occasioned by the shrinkage in weight or bulk of the grain, loss by rotting, or the action of the elements, as well as loss by reason of storage in defective bins, etc. These features are usually contemplated and set forth in the bond itself, but as the guarantee is so worded that the agent is to turn over all grain for which he has issued receipts, it can readily be seen that a loss could be caused the surety by faulty scales or measures, by theft on the part of a third party, or otherwise.

Another bond somewhat similar is that required of warehousemen or custodians in charge of a warehouse receiving and issuing receipts for goods or commodities of almost every kind, and the hazard is always increased if such receipts are negotiable. This is true whether the bond runs to the owner of the warehouse, or to the bank which discounts the receipts issued. Much depends upon the nature of the product so handled. For instance, where pig iron is concerned, the risk is not as great as though the bond covered a warehouseman handling tobacco, cotton, or other easily injured or perishable products.

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It is evident, that while the greater portion of humanity may be safely trusted in a fiduciary capacity—that is to refrain from a willful act of dishonesty—the circumstances are altered when an effort is made to guarantee by a Fidelity Bond that something will or will not occur that may be beyond the power of the principal to bring about or to prevent. Every underwriter should constantly be on the alert to discover in the wording of a special bond form any feature which involves insurance which is other than fidelity. In some instances, these features, although almost hidden, are sources of the greatest danger. The forms in which these “lions in sheep’s clothing” may be brought to the attention of an underwriter are so numerous that only a general warning can be issued. Every form of bond with which the agent is not thoroughly familiar, whether through inexperience of not having written it before, or on account of not having adjusted claims under it, should be analyzed in every feature, for latent, remote, and probable, liability.

DIFFERENCES IN METHODS OF CARRYING OUT THE VARIOUS CLAUSES.

The methods of carrying out many of the provisions of the above clauses must accord with the policy of the company issuing the bond; for instance, where one company will require telegraphic notification of a shortage, another will accept notice by registered mail or perhaps personal notice to its agent at a stated point. The same differences may be noted in respect to various miscellaneous clauses which are inserted from time to time in the bonds drawn by different companies. Some of these clauses are rendered necessary by the laws of certain states, while others are merely additional methods of insuring protection to the surety or extending concessions to the assured.

BANK BOND FORMS.*

The form of Bank Bonds is of sufficient importance to receive special notice, for the reason that the American Bankers' Association has prepared and published a copyrighted form of bond which members of that Association usually ask to have written. There is no objection on the part of surety companies to writing this form, but it necessarily demands a higher rate than most of the bonds which the companies themselves prepare and issue. A thorough synopsis of the American Bankers' Association form will not be given. Simply stated, the important differences between it and the form as used by most of the companies for bank business are as follows: The American Bankers' form guarantees against loss occasioned by dishonesty on the part of an employee under any circumstances of position or employment; whereas, the other form covers, as a rule, only personal dishonesty in performing the duties of some specified position. The former permits the transfer of employees from one position to another at the employer's will, whereas, the latter, as a rule, requires notice to, and consent of the surety for this. In the American Bankers' Bond the employer is not required to swear out a warrant for the arrest of a defaulting employee, while the contrary rule prevails in the other obligation. In the above features and a few other minor ones, the American Bankers' form is more liberal than most forms drawn by the companies. However, there are numerous points in which companies are willing to issue a more liberal bond, so that each and every agent should study his own company's bond and compare it carefully with the American Bankers' form. He will be asked many times to explain the differences.

DIFFERENCES BETWEEN THE FORMS.

For convenience, a synopsis of the important clauses in the two obligations may be stated in parallel columns as follows:

* See Appendix, pages 194-204.

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American Bankers' Association Form.

Covers any loss or *damage* of funds, property or *estate* belonging to or *in custody* of employer.

Loss must be through dishonesty or any act of omission done in bad faith.

Loss may occur in any duty or trust specially assigned or otherwise.

Loss must be discovered within *one year* after termination of bond, or of any particular engagement as regards such engagement.

Company will pay to employer the amount of any loss or damage three months after proofs of loss shall have been furnished.

If employer holds other security or indemnity, company is still liable to limit of its bond, but on payment of loss, is entitled to receive assignment of such security or indemnity with authority to realize thereon.

Employer may transfer employees at will without notice to company.

Employer makes certain warranties which are embodied in printed bond form. (These warranties are not sufficient and company requires Employer's Statement in addition.)

Companies' Form.

Covers *pecuniary* loss employer may sustain in money, securities or other *personal* property.

Loss must be through personal dishonesty.

Loss must occur in performance of duties specified in warranty of employer.

Loss must be discovered within *six months* after termination of bond, or of any particular engagement as regards such engagement.

Company will reimburse employer for pecuniary loss three months after *satisfactory* proof of loss shall have been furnished.

If employer holds other security, employer is only entitled to claim such proportion of loss as company's security bears to whole amount, whether employer is reimbursed from other security or not.

Employer must notify company of any interchanges and receive written acknowledgement.

Employer makes no warranties in bond form, but upon Employer's Statement which is a condition precedent to issue of bond.

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American Bankers' Association Form.

In event of breach of any warranty as to any employee, bond is void as respects such employee only.

Company may cancel bond on *fifteen days'* notice to employer.

In event of cancellation as to any one employee by company, employer may cancel entire bond on same conditions, receiving pro rata return premium.

Upon death, resignation or discharge of any employee during first year of bond, company deemed to have earned whole of premium paid on such employee. In subsequent years, pro rata return allowed.

Employer need not cause arrest or prosecution of any employee for any offense involving liability of company, but must render all assistance (not pecuniary) in arrest or prosecution of such employee or in effort of company to obtain reimbursement on account of any claim paid.

Employer must file proof of loss within *six months* after notification of loss to company.

Knowledge of any officer shall be considered as knowledge of employer *unless* such officer be in collusion with employee causing loss.

Companies' Form.

In event of breach of any warranty as to any employee, entire bond is void.

Company may cancel bond on one month's notice to employer.

Upon death, resignation or discharge of any employee in first or other years, company allows return premium at usual short rates; except where immediate substitution occurs, which company permits without charge.

Employer *must* cause arrest of any employee and must give all assistance (at cost and expense of company), in prosecution or effort to obtain reimbursement.

Employer must file proof of loss within *three months* after notification of loss to company.

Knowledge of any officer shall be considered as knowledge of employer *even though* such officer be in collusion with employee causing loss.

CHAPTER II.

CONTRACT CONSTRUCTURAL BONDS.

In a general sense the term "Contract Bond" is applied to a bond given to carry out any written contract or agreement. In this chapter, however, the discussion under this general head, will be limited to the bonds given for structural contracts. These obligations are designated as "Contract Constructural Bonds."*

The liability or risk under Contract Constructural Bonds ranges from nil to that of great hazard, and before taking up in detail the underwriting of this business, it should be impressed upon the reader that this obligation is, theoretically speaking, a credit or banking proposition and is not figured on an average or insurance basis, for the reason that each bond guarantees the fulfillment of a specific contract, and of necessity must be considered distinctly upon its own merits. In underwriting Contract Constructural Bonds, they must be looked at from the point of view of a banker when discounting commercial paper, for, broadly speaking, the surety companies practically endorse the note of the applicant or contractor, agreeing that he will deliver (or pay) to the owner or assured at a fixed date a structure of a certain prescribed kind. As is done in banking circles, it is frequently necessary, when the contractor has not sufficient means to finance his contract, to secure collateral indemnity or personal security for the protection of the original surety.

It is difficult for a field man, especially when he is engaged in other lines of business, to recognize the great difference between the insurance and the so-called credit or banking

* Care should be taken not to confuse these bonds with those somewhat similar, treated in chapter V.

feature of the surety business. One of the causes for this confusion is the fact that in order to get some basis to determine the premium to be charged for the execution of Contract Constructural Bonds, it is necessary to figure arbitrarily on a percentage basis. This is done merely for convenience, and not with an idea of naming a rate based on the law of average, as a sufficient rate can never be asked which would make a bad proposition acceptable or even commensurate with the risk assumed.

The amount of bond required as compared to the contract price varies materially according to the whims or ideas of the architects or engineers; and as the liability of all contract bonds depends upon the size of the contract, the rate of premium should be charged on the amount of the contract price. For the same reason that makes it necessary for the banker to secure all possible information about a borrower, the field representative should, before submitting or recommending a risk, investigate each and every feature of the same, ascertaining whether the contractor has ever defaulted; whether he bears a good reputation, etc. The specifications and conditions under which the contract is to be performed should also be carefully scrutinized, in order that an intelligent opinion of the contractor's ability to comply with them may be formed.

ADVISABILITY OF ACCEPTING A RISK.*

The necessary points to be considered in order to properly differentiate a good from a bad risk may be generally summarized as follows:

- 1—Nature of work contracted for.
- 2—Whether the contract price is sufficiently high to enable the contractor to make a profit.
- 3—The ability of the contractor to complete the contract.
- 4—The amount of work under way and percentage uncompleted.

* See Appendix, page 204.

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- 5—The conditions under which payments are made.
- 6—The financial standing of the contractor.
- 7—Age of the contractor.

CONSIDERATION OF SAME.

1—*Nature of the Work Contracted For.*—Contract Constructural Bonds can be divided into three general classes having regard to the amount of danger therein involved.

- a—Sewers (closed), subways, tunnels, dredges, water-works, straightening rivers, dams, and all other classes of work where the elements of nature must be taken into consideration and where a contractor may meet with conditions that he cannot foresee when bidding on the work.
- b—Construction of open-cut sewers, railroad work without tunnels, or where tunnels are not over one hundred feet in length, bridges, grading, and filling, street paving and road building.
- c—Simple superstructural contracts, heating and ventilating buildings, and for general repairs of superstructures.

Statistics prove that surety companies have in the past met with very heavy losses on the bonds found in class *a* (*supra*), for the reason that conditions frequently arise which were entirely unforeseen to the contractor when he undertook the work and which prevent his completing it, thereby causing default and resulting in loss to the surety. Conservative surety companies will only issue a bond covering such contracts, when investigation discloses that the financial strength of the contractor is such as to more than off-set any of the unforeseen circumstances which are likely to come up.

The bonds classified under *b* are less hazardous than the *a* class, as the elements of nature, which might affect the work can be calculated with more certainty.

With regard to the bonds needed for class *c*, experienced contractors should with reasonable certainty be able to ascertain the conditions under which these contracts are to be performed.

2—*Whether the Contract Price is Sufficiently High to Enable the Contractor to Make a Profit.*—If the contractor can make a profit, it is reasonable to suppose that he will be able to complete his work. To ascertain this, information regarding the architect's estimate, the applicant's bid, and the figures of all the other bidders on the contract should be considered. This latter information is sometimes difficult and annoying for the agent to obtain; yet it is necessary, for, when these figures are taken into consideration with the estimate of the architect or engineer, a fair idea can be formed as to whether the contractor has bid high enough to make a reasonable profit. When there is a decided difference in the estimates of the bidders on any contract, particular attention should be given to this feature, and the surety company should make such an investigation as to convince the underwriter that the work can be completed at the contractor's figures. Knowledge of the responsibility and standing of the other bidders must be secured to ascertain whether they be "straw" or "legitimate."

3—*The Ability of the Contractor to Complete the Contract.*—Care should be taken that the contractor is bidding on a character of work with which he is familiar, to make sure that he will be thoroughly aware of the conditions surrounding it. If he be bidding on a contract different from his general line of operation, or if he is agreeing to perform work out of his vicinity (there being some danger as to his not being familiar with the local conditions of the place where the contract is to be performed), great care should be used in scrutinizing the risk.

Bonds covering contracts which will take over a year or eighteen months to complete are more hazardous than those

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covering contracts of a shorter period, as conditions may change between the date of the assumption of the contract and its completion. A list of completed contracts should be submitted with the application to show the character of the contractor's previous work. His integrity and ability can be learned from the owners, architects or engineers under whom he has previously worked, as well as from the firms furnishing the supplies and materials. The general reputation and credit of the bidder should be carefully considered.

4—*The Amount of Work Underway and Percentage Uncompleted.*—This information is of importance, and must be taken into consideration with the financial standing of the contractor. A list of the contractor's undertakings, showing the various contract prices, and the percentage of uncompleted work in each, should be ascertained. This will show (with the contract in hand which the bond applied for is to guarantee) whether the contractor has more work on hand than his capital will warrant. One of the main reasons why contractors become embarrassed is because they undertake more work than they can satisfactorily supervise and finance. If corporate surety has been furnished by another company on his unfinished work, it should be learned whether the risk in question has been declined, and a good reason should be given for the "switching" of his business; for statistics prove that when a contractor over-trades, it becomes a question of "robbing Peter to pay Paul." As a rule, when there is any lack of funds, the latest contract is the one which goes by default. Therefore, a thorough investigation along these lines should be made when underwriting a bond, especially in the case of a new client.

5—*The Conditions Under Which Payments are Made.*—It is important to determine how and with what frequency payments on the contract are to be made. It is an advantage to have a certain percentage of the contract price retained by the

owner or assured, which is usually from ten to fifteen per cent, in order to enable the company to relet the contract without loss in case of default. It may be stated, however, that if the amount held back is too high, and the bid on the contract is at cost or with a small profit (especially if the contractor's available assets are limited when compared with the total amount of work uncompleted), a default may result. Under no conditions should a Contract Constructural Bond be considered when a contractor agrees to accept as part payment either bonds or securities unless some definite arrangement is made for their discounting, because the contractor may have difficulty in the selling or hypothecation of the same and thereby become financially embarrassed, in which event the surety company may be compelled to discount them for him at a loss.

6—*The Financial Standing of the Contractor.*—A detailed statement of the contractor's financial condition should be secured, and this should be verified as to bank balance, value placed on stocks and bonds, stock of supplies, notes and accounts receivable, and real estate (with particular reference as to whether the real estate so itemized stands in the contractor's name and is therefore available for the payment of his debts). Such further information is necessary as will determine the integrity of the contractor, and whether his statement is honest and conservative. In determining the net amount of assets, it is usually necessary to make some allowance for the depreciation of real estate together with his plant and bills receivable in order to arrive at his net worth.

If the contractor has protected himself in the following manner against contingencies, it will reflect upon his financial worth and ability:

- a—That he carries a sufficient amount of life insurance payable to his estate to enable his executors to complete his contracts in case of death;

- b—That he carries a sufficient amount of liability insurance to prevent shrinkage of his funds or his credit with his bank and supply firms in case of suit on the part of any workman injured by accident;
- c—That he carries a sufficient amount of builders' risk insurance to protect him against any suit by the public; and,
- d—That the contractor is not an endorser for others.

The reader's attention is directed to what may be called the "guess work" statements frequently made by contractors, who either do not keep such a set of books as will give the correct detailed statement of the facts desired, or who are not acquainted with their own financial condition except in "round figures." Such a person does not make a desirable risk.

In placing the valuation on the plant of a contractor, a determination should be made not only as to whether the same is in good repair, but also and more especially that the kind and character of the machinery needed for the work in question is owned. A plant that can be used is a very important asset but when it is either antiquated or unsuitable for the work in hand, it is of very little value. Due consideration of this fact should be given in determining the net assets of a contractor, for many contractors have become embarrassed financially on account of their being obliged unexpectedly, after they have taken a contract, to make necessary additions to their plant.

7—*Age of Contractor.*—The age of the contractor reflects upon the desirability of the risk, for, if he be too young, he may lack financial and executive experience; while, on the other hand, if advanced in years, there is a possibility of his becoming physically disabled and for that reason unable personally to supervise his work. For this reason, other things being equal, a partnership is a better risk than an individual, a corporation, than a partnership.

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PREMIUM RATE AND INDEMNITY AGREEMENT.

Indemnity Agreement.—The premium rate on Contract Constructural Bonds should be charged on the contract price and not figured on the penalty of the bond. It should be made payable per annum, though sometimes the full premium is paid for the term of the bond in advance. Endless annoyance in the collection of the second and subsequent years' premiums on this class of risks will be saved a field representative if care be taken to see that the premium is stated distinctly in the Indemnity Agreement. (See page 206.)

The contractors also agrees in the Indemnity Agreement to furnish the company with legal evidence of the completion or release under the bond; to reimburse the company for all loss, costs, damages, counsel fees, etc., that the company may sustain for having executed the bond; and furthermore that the surety shall have the right of possession of such plant of the contractor as may be upon the work in case of default. The surety, in other words, is to be subrogated to all the rights of the contractor under the contract in case of breach or default. Great care should be taken in seeing that the Indemnity Agreement is properly witnessed and legally executed so as to make this instrument enforcible in law if necessary.

RATIO OBSERVED IN EXECUTING THESE BONDS.

If, after reviewing the facts, as brought out on inquiry, nothing detrimental has been discovered, it is customary to execute Contract Constructural Bonds in a ratio of five to one, i.e.,—when the total amount of the uncompleted portions of the unfinished contracts together with the contract for which the bond under consideration is desired is not greater than five times the net or available assets of the contractor. This rule, however, is not iron-clad, varying according to the hazards of the classes of

work and according to where and for whom the work is to be done. The laws governing the filing of mechanics and material liens differ in the various states. Accordingly, the effect that they may have on the liability under the bond is reflected in the above ratio.

This ratio does not apply in the execution of bonds running to the United States government, for there is much more hazard in these undertakings, in view of the mode in which the work is conducted and the bond form required.

FORMS OF BONDS ISSUED.

The Contract Constructural Bond forms issued by all companies are practically similar, though it is not always possible to use a company's own printed form, especially in case the bond is in favor of the Federal or State Government, a county or municipality. Where such is not the case, the form ought to include, in addition to the usual bond clauses, the following conditions which should be made precedent to the rights of the assured to recover under the bond.

- 1—A provision for notice.
- 2—Giving the surety the option to complete in case of default and to be subrogated to the rights and benefits of its principal.
- 3—Limiting the surety's liability to the assured.
- 4—Relating to the time when last payment and reserve shall be made.
- 5—Excluding certain contingencies from the surety's liabilities over which no one has control.
- 6—That notice and consent must be given of changes and alterations.
- 7—That the bond does not guarantee proficiency, wearing qualities or maintenance.
- 8—A provision relating to counter security, or proportionate loss clause.
- 9—Limiting time for legal action and the amount payable under the bond.

All of these provisions are necessary to the surety's interest and are likewise for the protection of the assured, as they set forth the exact conditions under which the surety has executed the bond, and is willing to assume the liability. No injury will result to the assured if he adheres strictly to these conditions.

Bonds issued in favor of the Federal and State Governments, counties or municipalities are to all appearances broader in their scope, for the reason that many, if not all, of the above noted provisions are eliminated. When the assured, however, as would be likely in these cases, has a legal department to pass on the form and to look after its rights as well as its duties to the surety (which rights are firmly established in law and equity), it is not necessary for these conditions to be set out specifically. In view of the fact that many Contract Constructural Bonds run to laymen, who, as a rule, do not consult attorneys until they become involved in some way, it is the practice for surety companies to set out clearly and specifically the necessary conditions for the benefit of such clients.

ANALYSIS OF THE GENERAL PROVISIONS.*

A fair sample of the form of Contract Constructural Bonds generally in use will be indicated by the following analysis. In addition to this a second form, which differs somewhat from the first, is also discussed.

1—PROVISION OF NOTICE.

"The said Surety shall be notified in writing of any act on the part of said Principal or its agents or employees which may involve a loss for which the said Surety is responsible hereunder, immediately after the occurrence of such act shall have come to the knowledge of said Obligee or to any representative duly authorized by him to oversee the performance of said contract; and a registered letter mailed to the President of said Surety at its office in ——— City ——— State, shall be the notice required within the meaning of this bond."

* See sample forms, Appendix, pages 207-210.

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The surety is certainly entitled to notice of any default whether material or otherwise on the part of its principal, whether such default may or may not result in pecuniary loss. This right is founded upon a plain principle of justice, for the owner, or his agent, the architect, being in constant attendance upon the work, and, therefore, in a position to observe any breach of contract on the part of the contractor, should immediately notify the surety, who has obligated itself to indemnify the owner against wrongful acts on the part of the contractor. It would not be equitable if the owner should be permitted to remain silent until the work was completed, and then make claim on the bond for default under the contract, which could not be remedied except at great expense. If proper notice is not given, therefore, in a bond having this clause, such failure constitutes a breach of contract on the part of the assured with the surety, and may defeat the assured's claim, if he has any. The object of this notice is that the surety may be apprized of any claim that is likely to be made against it, in order that efforts may be made to bring about an adjustment of existing differences between the assured and the principal. This prevents the necessary expense which might be entailed if the difficulty were permitted to drift until a crisis was reached, as it frequently happens that the surety, being a middle man, so to speak, is able to bring the parties together and act in the capacity of an arbitrator.

2—GIVING THE SURETY OPTION TO COMPLETE.

"If the said principal shall voluntarily abandon said contract, or be lawfully compelled by the Obligee to cease operations thereunder by reason of its non-performance of any of the terms or conditions, then the Surety shall have the right, in its option, to assume the said contract and to sublet or complete the same, and if said contract shall be assumed by the Surety, then as such contract is duly performed, any reserve, deferred payments, and all other moneys provided by said contract to be paid to the Principal shall be paid to the Surety at the same time and under the same conditions as by the terms thereof, such moneys would have been paid

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to the Principal had the contract been duly performed by it. And if said Obligee shall complete or relet the said contract, then any forfeitures provided in said contract against the Principal shall not be operative as against the Surety, but all reserves, deferred payments and all other moneys provided in said contract which would have been paid to the Principal had it completed the contract in accordance with the terms, shall be credited upon any claim the said Obligee may make upon said Surety."

A clause containing the above conditions should be inserted in order that the surety may have an opportunity to work out a contract proposition without loss, or at any rate to minimize the loss as much as possible in case a default occurs. Were this clause not inserted, the assured might disregard entirely the rights of the surety, and undertake the completion of the contract himself. If, after completion, it developed that more money had been expended than named in the original contract, he might make a demand on the surety for the difference.

The subrogation clause is not absolutely essential for the reason that the surety has this right by reason of its relationship to the parties at interest. The right of subrogation is a principle of equity, and is also recognized and enforced in courts of law. It is not founded on the contract or agreement, but upon plain principles of common justice. It has its origin in a sense of natural right, and is controlled by equitable principles. It is not a thing which must be alleged to entitle the surety to its benefits, but is the conclusion of law and equity drawn by the courts from the statement of facts out of which it arises. In view of the court recognizing the surety's rights of subrogation, this clause is inserted in the bond for the protection of the assured rather than the protection of the surety.

3—LIMITING THE SURETY'S LIABILITY TO THE ASSURED.

"The Surety shall not be liable under this bond to any one except the Obligee, but it is agreed that the Obligee in esti-

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inating his damage, may include the claims of mechanics and material men, arising out of the performance of the contract, and paid by him only when the same, by the Statutes of the State where the contract is to be performed, are valid liens against his property."

This clause is inserted in order to prevent mechanics and material men from proceeding against the surety direct, which right is given them under the forms of bond prescribed by the United States Government and by the statutes of some of the states. Though this clause is for the benefit of the surety it does not deprive the assured of any of his rights, or in any way affect his interests. The only obligation imposed upon him is that he must be positive when he settles any claims that they are of a lienable character.

4—TIME WHEN THE LAST PAYMENT AND RESERVE SHALL BE MADE.

"The said Obligee shall retain the last payment and reserve due said Principal until the complete performance by said Principal of all the terms, covenants and conditions of the contract on said Principal's part to be performed and until the expiration of the time within which liens or notices of liens may be filed, by reason of anything done in or towards the performance of said contract, and until the cancellation and discharge of such liens, if any, and said Surety shall be notified in writing before said last payment shall be made or said reserve paid."

This clause is of more or less benefit to the surety, and the obligations which it imposes are not of an onerous character. In answer to any possible contention that this provision may seem not entirely reasonable or fair to the assured, it should be pointed out, and is obvious upon proper consideration, that it is to a certain extent to his interest and advantage; for, if the last payment and reserve is retained until the expiration of the lien period, or the consent of the surety for payment is had, if payment be made before such period, in all probability considerable annoyance in the way of claims and threats

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to proceed against the property will be saved the assured. This clause only requires the assured to act as a prudent man would, had he no security such as the bond furnishes.

5—EXCLUDING CERTAIN CONTINGENCIES FROM THE SURETY'S LIABILITY.

"The Surety shall not be liable for any damage resulting from an Act of God, or from mob, riot, civil commotion or a public enemy, or from so-called strikes or labor difficulties, or from fire, lightning, tornadoes or cyclone, and the Surety shall not be liable for the re-construction or repair of any work or materials damaged or destroyed by said causes or any of them."

A Surety Bond is not given to guarantee faithful performance of a contract when certain circumstances may develop over which neither the surety nor the contractor has any control. The bond is for one purpose only; i. e., to guarantee the good faith and conduct of the contractor under certain circumstances. It is not intended to furnish any other form of insurance. Many of the contingencies exempted by this clause may be covered by other forms of insurance, and it places the burden upon the assured to see that he protects his interests from such unforeseen circumstances.

6—NOTICE AND CONSENT TO CHANGES AND ALTERATIONS.

"The Surety must be notified in writing and its written consent secured to any change or alterations made in the original plans or specifications by the Obligee."

This clause requiring the surety to be served with notice of any changes or alterations in the original plans or specifications is not only reasonable, but most important from the surety's standpoint, as the question of the amount of premium is more or less involved. Even though this clause were not inserted, any alteration or change without the consent of the surety would vitiate the surety's obligation to the assured, as it is a well determined fact that courts will

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not countenance one or more parties disregarding any terms of a written contract without the consent of all. This provision, therefore, is for the protection of the assured as well as the surety.

7—BOND DOES NOT GUARANTEE PROFICIENCY, WEARING QUALITIES OR MAINTENANCE.

“This bond does not cover any provisions of the contract or specifications respecting guarantees of efficiency or wearing qualities or for maintenance or repairs, nor does it obligate the Surety to furnish any other bond covering such provisions of the contract or specifications.”

This clause should be inserted to prevent any misapprehension in the mind of the assured that the bond is given for more than simply the structural part of the contract. Where guarantee of efficiency or maintenance is desired, a separate bond should be given or a special clause inserted stating fully the conditions under which such guarantee and maintenance is undertaken or exacted. This is of mutual benefit to both the assured and the surety.

8—COUNTY-SECURITY OR PROPORTIONATE LOSS CLAUSE.

“That if the Obligee shall at any time hold concurrently with this bond or represent to the Surety in any statement or declaration to it, that, said Obligee does or will at any time hold concurrently with this bond any other bond or guarantee of security received in connection with the contract covered by the above bond, the Obligee shall be entitled, in the event of loss as hereinbefore stated, to claim hereunder only such proportion of the loss as the amount covered by this bond bears to the whole amount of the security carried, or so stated to be carried, covering the contract covered by the above bond, whether the Obligee shall be able to reimburse himself from such other bonds of guarantee so carried or stated to be carried or not, or whether the same has been allowed to lapse or not.”

This provision is inserted for the protection or guidance of the assured, as any rights which are intended to be reserved

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in favor of the surety thereby are recognized by the courts. The position is also founded on principles of natural justice.

9—LIMITING TIME FOR LEGAL ACTION.

“That any suits at law or proceedings in equity on this bond to recover any claim hereunder must be instituted within six months after the first breach of said contract. The surety shall not be liable for an amount in excess of the penalty of this bond.”

or

“That any suits at law or proceedings in equity on this bond to recover any claim hereunder must be instituted before the —— day of ——. The surety shall not be liable for an amount in excess of the penalty of this bond.”

The effect of these clauses is to enable the surety to cancel its liability after it has given the assured a reasonable time in which to take legal action under a breach of the contract. The clause should also be so drawn that the surety will not be liable for an amount in excess of the penalty of the bond.

SECOND FORM OF BOND.*

The other or second form of Contract Constructural Bond, which is more or less used, is rather in the nature of an Indemnifying Bond than a Specific Performance Bond. It contains, in addition, substantially all of the bond provisions hereinbefore recited in a more or less condensed form.

In the first form of bond from which the above provisions are quoted and enlarged upon, the condition is that if the principal (meaning the contractor) shall faithfully perform said contract according to the terms, covenants and conditions thereof, then the obligation is to be void, whereas, in the second form the condition is “that if the principal shall indemnify the obligee (meaning the owner) against any loss or damage directly arising by reason of the failure of the principal to faithfully perform said contract, then the obliga-

* See Appendix, pages 207-210.

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tion to be void. The second form also contains the same "Provision of Notice" as the first, with the exception that the owner is required to furnish within ten days a written statement of the defaults of the contractor with the date of the same, after the owner or his representative, or the architect, if any, shall learn of such default. The surety, however, is obliged within a specified time after the receipt of such notice to secure others to proceed with the performance of the contract in the event it is disposed to do so. Provision is made in the latter obligation for limiting the time within which the owner may proceed against the principal or surety to a specified date, whereas in the first form, the rights of the owner are limited under the bond to six months after the first breach of the contract. In the second form there is a provision that the contractor be made a party to any such suit or action and be served with process if he can be found. The second form limits the damages which the owner can claim against the surety by reason of delays in finishing the contract, and this limitation is based upon a certain percentage of the penalty of the bond. The relative clauses of the two forms respecting the retention of a proportion of the contract price until the completion of the contract are somewhat different—the second form, it is to be noted, requires the owner to retain a certain definite percentage, which is inserted in the body of the bond. The latter form, furthermore, contains a guarantee on the part of the owner that the plans and specifications mentioned in the contract, which is guaranteed thereby, are not in any respect defective, and will at all times be adequate for the complete performance thereof. This is a just and reasonable provision and equally as protective to the owner as the surety.

In discussing the first form of bond, it was noted that it contained a provision requiring notice to be given to the surety of any change or alterations in the original plans and specifications. The second form contains a similar pro-

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vision with the exception that it allows the owner to make changes, provided such changes do not increase the contract price beyond a certain percentage of the penalty of the bond, which is definitely stipulated therein. The owner is thereby allowed a considerable freedom, and, as long as he does not violate the provisions of the bond in this regard, he need have no fear of a denial of liability on the part of the surety by reason of slight and immaterial changes in the plans and specifications.

Finally, the second form contains a provision which confines the surety's liability to the use and benefit of the owner named in the bond. It also provides that the obligation of the surety shall be construed strictly as one of suretyship, and shall not, for any interest therein, or right or action thereon, be assigned without the prior consent in writing of the surety.

CANCELLATION OR RELEASE.

It is desirable to emphasize to field men accustomed to handle other lines of insurance that there is no cancellation clause in a Contract Constructural Bond similar to that in the usual insurance policies. Such being the case, the old saying, "Be sure that you are right and then go ahead," particularly applies to a bond of this class, as the liability cannot be terminated at any fixed date, but only upon the completion of the obligation involved.

It is necessary for the surety company, in order to cancel the liability, to secure a legal release and thereby reduce its premium reserve as carried against such risks. This can best be secured by the agent, and he, at the proper time, should get from the owner or assured under the bond a statement that the work has been completed and accepted, which should be in writing and promptly forwarded to the home office of the company.

In order that this phase of this branch of the surety business may be better understood by the field men, it can be

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briefly stated that there are six methods by which a Contract Constructural Bond may be cancelled:

- 1—By surrender of the obligation.
- 2—Release in writing.
- 3—By the operation of the statutes of limitation.
- 4—By agreement of the parties.
- 5—A breach in the bond on the part of the assured.
- 6—By settlement of claim.

The first three conditions apply when the obligation has been fulfilled, in which case the bond should be returned to complete the files of the surety. In case, however, the assured wishes to preserve the bond for his own record, he should execute a release to the effect that the obligation has been fulfilled and all liability on the part of the surety terminated. When neither of these can be obtained, then the surety's liability can only be terminated by operation of the statutes of limitations.

The method as stated in (4) is applied in case the obligation has been indefinitely suspended by agreement of the parties, or when the assured is unable to continue the financing of the contract and settles with the contractor for the work done to date, thereby suspending operations indefinitely. The surety company should be furnished with a copy of such agreement.

The fifth method of cancellation is applicable when the assured vitiates the obligation of the surety by some act contrary to the agreement between them. This agreement may either be in the bond itself or may be evidenced by a separate instrument. In order however to make void the bond on the strength of the violation of a separate instrument, it is necessary that it be stated that the terms of such instrument are made a part of the bond, not only by reference thereto, but by stipulation in the bond that such instrument has been agreed upon by the parties as a part of the bond.

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The procedure is not generally involved in difficulty when a claim and settlement are made under a bond. It is customary to get a legal release at the time of such settlement, as this relieves the company from further liability under the bond.

CHAPTER III.

MAINTENANCE BONDS.

A Maintenance Bond can either be made one of the clauses of a Contract Constructural Bond, or be issued as a separate instrument to cover any provision or terms of the contract or specifications which require guarantee of efficiency or wearing qualities, maintenance or repairs. Maintenance provisions in a constructural contract are not necessarily objectionable, provided they do not cover deterioration caused by the ordinary wear and tear of the property.

WHEN MAINTENANCE BONDS ARE REQUIRED.

The following may be given as the usual conditions under which these bonds are desired:

1—*For Maintaining an Ordinary Building Against Defects Which Might Develop During the Maintenance Period (Usually One Year and Seldom Over Two).*—About the only defects which are likely to appear would be in the walls and ceilings, caused by the settling of the building. These can be easily remedied by a slight touching up and at small expense.

2—*For Concrete Construction.*—This is not considered hazardous if the building be used for ordinary purposes. When, however, heavy machinery, such as printing presses, etc., which cause more or less vibration, is to be installed in the building, great care should be exercised before a bond is given to cover a maintenance period. There is absolutely no way of knowing whether the building will sustain shocks resulting from constant vibration. This form of construction is also used in bridges, and when the work is done in a workmanlike manner, and the spans are not great, nor the traffic unusually heavy, they are not undesirable risks.

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3—*For the Installation of Machinery and Heating Plants.*

4—*For a Guarantee of Street Paving.*—Such bonds should not be issued for a longer period than five years, and are extremely hazardous except on behalf of very large contractors. Even then they should not be executed unless collateral is secured covering the probable cost of maintaining repairs. Bonds on streets where there are car tracks are especially hazardous, as few, if any, pavements will not deteriorate during a long maintenance term on streets on which car tracks are laid. It is frequently necessary to make repairs, and for this reason collateral indemnity should be secured or an agreement made with the municipality that sufficient funds will be retained until the expiration of the maintenance period to take care of the repairs.

5—*For Tile Work, Roofing, Small Sewers, Drains, Etc.*

NECESSITY FOR INVESTIGATION.

In passing upon the advisability of the execution of a Maintenance Bond, as full an investigation should be made as in the case of Contract Constructural Bonds, but *additional* care should be exercised in an investigation of the contractor's previous experience with the work to be guaranteed. His reputation should be good, and it is desirable that he should have had experience covering many years in his particular line of work. Investigation should also show that his previous work has been, without exception, absolutely satisfactory. This especially applies to contractors for the installation of machinery and heating plants.

One of the dangers in the execution of Maintenance Bonds without collateral for the protection of the surety, is the difficulty of determining the prospect or probability of the contractor's continuing in business, and maintaining his credit to the end of the maintenance period. Experience shows that it is practically impossible for anyone to calculate with accuracy the length of any business concern's existence. The

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hazard, therefore, under Maintenance Bonds is very much greater than in the ordinary Contract Constructural Bond. This is principally on account of the time to be covered. Many firms, who are entitled to a bond for structural purposes, could not secure a Maintenance Bond, extending over any considerable length of time, unless full collateral were placed with the surety.

CHAPTER IV.

SUPPLY BONDS.

The term "Supply Bond" is applied to those bonds which guarantee the furnishing of supplies, materials, etc. When these articles, however, are to become part of the realty or are attached thereto during the time of construction, the bond should be classified as a Contract Constructural Bond. As the articles to be supplied are as a rule either in a crude or manufactured state and can be purchased on the open market, the risk assumed is not as great as under Contract Constructural Bonds. The investigation of the applicant is similar to that required in constructural contracts. Special care should be taken not only to see that the figures of all the bidders are close, but that the contract price of the articles to be supplied is near enough to the general market value to enable the firm to carry out the contract.

The risk or liability of the surety on these bonds in case of default is generally calculated as the difference between the contract and market price at which the goods can be purchased, except in those cases where the contractor agrees to supply a patented article. In such an instance care should be taken to see that contractor is able to deliver the same, for, otherwise, the surety might find it difficult to furnish the article so patented. It is also to be carefully noted that the bond generally guarantees that the article supplied will conform, both as to quantity and quality, with the contract specifications. Generally, Supply Bonds are excellent risks, and are much sought after by surety companies.

Bonds of this nature are required of firms supplying material of any kind to the Federal or State Governments and municipalities. They are also exacted in many instances

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by private concerns. Agents and solicitors will not find it difficult to locate this business, owing to the innumerable firms that bid to furnish supplies to the various purchasing departments.

The form of bond required guarantees that the surety will hold the assured harmless in case of default, provided the assured is compelled to purchase the supplies in the open market at a loss.

CHAPTER V.

MISCELLANEOUS CONTRACT BONDS.

Many of the bonds considered in this chapter, though somewhat similar to the Contract Constructural Bonds previously treated, are concerned with some peculiar condition surrounding a contract, which makes it desirable to class them under this general heading. An attempt will not be made to consider all of the many bonds covering miscellaneous contracts, but it is advisable that attention be called to those most generally required. The obligations of this class quite frequently guarantee contracts of a semi-public nature. In such cases they are either statutory in form or subject to the approval of some duly appointed legal advisor.

The mode of investigating bonds under this class is similar to that followed in other contract propositions, but as peculiar conditions often surround the various contracts, it is necessary to look most carefully into the terms of the agreement itself to determine the true liability on them, and the bond forms should be drawn accordingly.

CLASSIFICATION OF MISCELLANEOUS CONTRACT BONDS.

Under the head of "Miscellaneous Contract Bonds," as distinguished from the contract bonds heretofore considered in chapters II, III, IV, those most frequently noticed are as follows:

1—PUBLIC PRINTING.

By legislation or appointment, a contract is usually given for the public printing. The person so selected is required to furnish a bond guaranteeing the faithful fulfillment of the contract as awarded, the penalty of which varies accord-

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ing to the estimated amount of work to be done. This business is considered good when the bid is let to a printer of reputable financial standing.

2—STREET SPRINKLING.

It is the custom for municipalities to sprinkle their streets. When this is done by contract, the individual or company, as the case may be, is required to give bond and the risk on the same is generally dependent on the kind or amount of equipment owned by the contractor.

3—COTTON COMPRESS WITH OR WITHOUT FIRE LIABILITY.

These bonds are most frequently required by railroads and large cotton factors throughout the South. They guarantee that cotton delivered to a compress company will be properly compressed and re-delivered without loss or damage. In most instances they operate as a full guarantee of the railroad bill of lading or compress company's receipt, the effect of the guarantee being that the compress company and its surety are held liable, not only for the grade and condition, but also for the weight of the cotton. Owing to the peculiar conditions surrounding this business and the rapidity at which the commodity runs into money, together with the ease of realizing on the same, the liability can become so large that very few compress companies are strong enough financially to warrant the execution of such bonds.

4—FURNISHING STEAM PUMPS.

Bonds under this class differ somewhat from Supply Bonds, owing to the fact that the contracts necessarily contain many special clauses. Where the bond is to guarantee that the pump will accomplish a certain amount of work, the hazard is greatly increased.

5—CONSTRUCTION OF VESSELS.

The principal business offered hereunder is in the construction of Government vessels and is, as is the case with all

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Contract Constructural Bonds running to the United States Government, considered more hazardous than similar obligations having reference to individuals. This arises from the technicality of the Federal officers, who usually supervise the work and to whom is given, as a rule, absolute authority. This frequently prevents an amicable adjustment of differences. Such contracts have very distinctive features and frequently guarantee that the vessels will make a certain number of knots per hour, otherwise they will not be accepted. This, of course, except under very unusual conditions, adds greatly to the hazard.

6—SURVEYING.

Such bonds are somewhat rare. However, surveyors are sometimes required to furnish bond guaranteeing that their work will be accurately performed. The professional record of the applicant is an important consideration in the matter.

7—PATENTS.

Bonds are required from time to time to be given by the owner of a patent, against whom there are standing proceedings for infringement, in favor of a distributor or dealer, who is selling the article in question, to protect the latter from any losses he might sustain if the infringement proceedings should result unfavorably to the defendant. Whether or not bonds of this character can be written with safety depends both upon the financial standing of the applicant, who is either the inventor or holder of the patent rights, and upon the likelihood of the infringement proceedings being carried to a successful issue.

Another variety of bond involving patents, occasionally encountered by surety companies, is that guaranteeing to an inventor either the perfection or the protection of his patent rights. These risks, however, should properly be undertaken by a company, which makes such business its specialty and which has the requisite force and experience to examine technically the merit of a case presented.

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8—GUARANTEEING FRANCHISES TO PUBLIC BODIES.

These bonds are distinguished from those treated under the head of Municipal Licenses and Excise bonds (Ch. XII), for the reason that the franchise is usually in the form of a contract between the individual or corporation and the state or municipality. The bond is given for the purpose of guaranteeing compliance with the provisions of the franchise. The liability varies greatly, and in many cases it is extremely hazardous. Frequently, however, where the corporation is a large one, and of a public nature, the business is looked upon as desirable. By a careful study of the proposition offered, the true liability can be discerned, and the good business distinguished from the bad. Attention is called, however, to those bonds given to municipalities for the construction or maintenance of streets or sidewalks, which ought to be classed under "Contract Constructural Bonds." As the ordinances and franchises of different municipalities vary greatly, the agent or solicitor should study the local laws in order to arrive at the true liability on these bonds.

9—STREET LIGHTING.

Bonds under this head may be divided as follows:

- a—Those in which the contract calls for lighting and trimming of the lamps only.
- b—Those in which the contractor agrees to supply the material or power necessary for lighting.
- c—Those covering both the supplying of material and the lighting and trimming.

As a rule, bonds under class *a* cover simply the supplying of labor, which makes them comparatively safe risks; while class *b* may cover not only this but the furnishing of electricity, gas or oil, and in some cases the erection and maintenance of wires or poles. Where the latter features are involved, the source from which the light is to be secured must be looked into and every precaution taken to insure a

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sufficient and regular supply. The bonds found in classes *b* and *c* are, therefore, much more hazardous than the obligations of the *a* group.

10—FURNISHING SCHOOL BOOKS.

These obligations are entered into by contractors who are awarded contracts to furnish books to public schools. They are not classified as Supply Bonds, as they usually contain many special features, such as the return of the books, etc. When the contracting firm is a well recognized publishing house, they are looked upon favorably.

11—REMOVAL OF GARBAGE.

Many municipalities are accustomed to arrange by contract for the removal of their garbage. In these cases, the contracts sometimes simply call for the collection of the garbage or, on the other hand, for the disposal of it when delivered to the contractor by the city. Usually the contractor is employed for both purposes. When the agreement is simply for disposal, the business may be considered good under certain conditions. Where the contractor undertakes to collect the garbage, the business is considered hazardous, because the amount gotten will vary according to season and the prosperity of the community, and also for the reason that the bond in such an instance is usually given to cover a term of years.

12—GUARANTEEING WAREHOUSE RECEIPTS.

Bonds of this division should not be confused with Warehouse Bonds given by distillers under the Internal Revenue Laws (Ch. XI), or with those entered into by either public or grain warehouses, as required by statute in many states (Ch. XII). What we are here considering are guarantees required by borrowers, when placing goods in warehouses, for the purpose of securing protection additional to the ordinary warehouse receipt, and such as may facilitate the borrowing of money from their banks. When the guaranties covering such ware-

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house receipts refer both to the quantity and quality of the article stored, they can be extremely hazardous. However, in the large recognized concerns, whose warehouse is a separate building, built for the purpose, and where the corporation is conducted independently of the persons desiring such guaranteed receipts, the bonds may sometimes be profitably issued. Very frequently, however, the warehouse is established by a set of merchants or manufacturers who desire to help their own borrowing ability. In such cases, through neglect, either willful or otherwise, the system for the proper protection against over-issue, inspection, and delivery of the article stored is not as efficient as in the independent warehouse; and this compels surety companies to charge such a rate of premium, in order to properly check up and inspect the articles stored, as to make it cost the borrower more than he can afford to pay. This added cost is frequently greater than the difference in the rate of interest between borrowing money on these warehouse receipts and on the individual capacity of the borrower.

13—GUARANTEEING FREIGHT BILLS.

Such bonds are required by railroads and steamship companies from their patrons in order to obviate the necessity for the payment of freight before the commodities are delivered or shipped. They guarantee that the freight will be paid at a subsequent date. When the date of settlement comprises a reasonably short period, and the financial standing of the applicant, when looked at in connection with the credit to be extended, is satisfactory, the bonds can be written without collateral, otherwise collateral or indemnity should be secured.

14—GUARANTEEING PAYMENT OF RENT.

This business is sometimes classed under the heading of "Lease Bonds," and covers those instances where the lessee enters into an agreement to rent property for a certain period

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at a fixed rate. In order to guarantee the prompt payment of rent and for the purpose of being protected for the entire term, the lessor requires a bond guaranteeing compliance with the terms of the lease. This is especially the case where the lessor has altered and improved the property to meet the particular needs of lessee. The only condition under which these obligations should be executed is that there will be collateral amounting to the full penalty. If, however, the lessor will accept a bond whereby he agrees to immediately notify the surety of default, and one containing a cancellation clause, providing that the liability of the surety shall cease at the expiration of thirty days' notice, then the business can well be written, provided two months' rent is secured in advance. A lessor, however, is usually reluctant to make this arrangement.

15—REPLACING OF PROPERTY AFTER ALTERATION.

This situation arises where the lessee of property desires to put it into a condition suitable for his purpose by alterations at his own expense. The lessor in such a case may require the lessee to furnish a bond guaranteeing the restoration of the property to its original condition at the expiration of the lessee's tenancy. It is generally necessary for the surety, except in very rare cases or for very large corporations, to obtain collateral amounting to the full penalty of the bond, especially as they usually run for a term of years.

16—BONDS ISSUED AGAINST LIENS.

This particular class of business has caused considerable loss. These bonds are generally required where the principal has insufficient funds to complete the building. In order to raise the necessary amount, he desires to secure a loan from a bank, building association, or an individual, and as security he executes a mortgage covering the building to be erected, or in process of completion. If the lender is not satisfied with the sufficiency of the mortgage, he demands of the principal a bond

guaranteeing that the building will be completed according to certain definite plans and specifications free of all liens, in order that his claim, in the shape of the mortgage, may be perfected if necessary.

What makes this class of risks hazardous is the fact that the money advanced to the principal may be diverted by him into other channels, and in the event of his being unable to finally complete the building, the surety would be called upon to fulfill the contract. Where this misappropriation occurs, there is no recourse against the principal except in a civil proceeding, and while a judgment is an absolute certainty, still it affords little protection. Of course, the surety would be subrogated to its principal's equity in the property, but in order to get a clear title, an expense would have to be incurred which would hardly offset the value thereby secured. Losses may also occur through honest error of judgment in miscalculation as to the cost of a building. In such a case additional money is required, with the result that the surety might be compelled to advance the same, inasmuch as it has guaranteed the completion of the building according to certain definite plans and specifications.

17—STAR ROUTE.

These bonds are required by the United States Postal Department of those contractors who agree to deliver mail between postoffices at distant points.* Their execution has been practically discontinued by all surety companies, except in rare cases. The reason for this is that, as a rule, the financial ability and integrity of contractors bidding on this class of work is not sufficient to make the risk desirable, especially when considered in view of the strict rulings of the United States Postal Department in reference to the "non-delivery of mail in all kinds and conditions of weather." Another item of consideration is the fact that

* Risks under this heading should not be confused with the bonds treated in chapter X, page 121.

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owing to a change of general mail routes, or for some other unforeseen reason, the amount of mail, in weight, may increase very largely, and this would make the contract much more arduous to the contractor than at first anticipated. There have been some very heavy losses on this business, and it is practically prohibited. These statements can also be applied to the "Screen Wagon Service," for the delivery of mail between postoffices and railroad or steamboat depots, as the Government usually contracts for this.

CHAPTER VI.

BID OR PROPOSAL BONDS.

It has been thought advisable to treat these bonds in a separate chapter, in order to remove, if possible, the misunderstanding that generally exists upon the part of many agents and solicitors, as well as in the mind of the public, in regard to the exact nature of the liability under them. It is the prevailing impression that there is very little hazard under a Bid or Proposal Bond. As a matter of fact, the losses under these obligations are proportionately greater than those sustained under final Contract Bonds. This fact should not be lost sight of by the readers of this manual.

WHEN PROPOSAL BONDS ARE REQUIRED.

Bid or Proposal Bonds can be used in practically all cases where contracts are made. They follow two general lines, and are so drawn as to guarantee:

1—That if the bidder is awarded the contract, he or his surety will furnish the final bond to guarantee the fulfillment of the contract.

2—That if the bidder is successful, the obligation acts as the final bond and guarantees fulfillment of the contract.

These bonds can be hazardous, and are more so than the final bond, because at the time a Bid Bond is executed, certain information of essential value to the underwriter is not available. The most important feature lacking are the figures of the other bidders, by means of which the underwriter can gauge to some extent the correctness of the applicant's estimates. It is also often true that other information is not to be had; for instance, the date at which the contract is to be completed, or perhaps the engineer's or

architect's estimate. As these features are the essentials upon which the underwriter should base his decision, he is necessarily unable to pass upon the case as intelligently as prudence would dictate, when they are lacking.

The opinion is general, that in executing a Bid or Proposal Bond, the chance that the particular contractor may not be awarded the contract lessens the liability. This, however, is pure speculation, and not intelligent underwriting. The bond of every bidder in any particular case ought to be looked upon as that which will cover the final completion. In other words, no Bid or Proposal Bond is necessarily a good risk simply because the bidder is but one of a number. The possibility that he may not obtain the work must never enter into the underwriter's decision.

The same investigation is made of these bonds as in the case of ordinary Contract Bonds, with the addition that every effort must be put forth to determine the fact that the applicant for a Bid or Proposal Bond is a careful, experienced, competent, and legitimate bidder. To bring out this information, it is necessary to consider carefully the details of the proposed work, and to compare them with the bidder's past record and experience in similar lines, and with his financial ability to undertake and complete the work.

In occasional cases bids are requested upon a unit of measure basis, when the total amount of the contract can not be determined in advance. This happens sometimes when bids are asked for paving contracts for a municipality at so much per square foot for all the work that may be required during a given period. It may also occur in various supply contracts, as, for instance, in Government contracts for stationery. In cases of this kind the financial standing and general ability of the bidder should measure up to a standard even higher than where the amount of the contract is known, in order to provide for all possible contingencies that might arise, in case the total amount of the work should exceed the bidder's expectations.

CHAPTER VII.

JUDICIAL BONDS.

Under this chapter are grouped those bonds which are issued on behalf of fiduciaries, as well as all those given in judicial proceedings. Owing to the necessity of promptness in issuing these obligations, it has become the practice of surety companies to provide their agents with powers-of-attorney, so that they will be in a position to promptly execute and deliver the bonds. As these bonds when once filed in court cannot be cancelled, the representative of a surety company should not only make a comprehensive study of all the different hazards surrounding these risks but ought also to use every precaution in regard to the many points involved before their execution.

Judicial Bonds are not only viewed as if on an insurance or average basis, but are also more or less akin to credit or banking propositions. In such obligations the surety guarantees not only that the applicant is honest or will not steal, but that he will collect, invest or distribute the estate according to the directions of the courts or the statutes of the state in which the bond is filed. It frequently occurs that although the applicant is perfectly honest, he has not acquainted himself with the laws governing the collection and distribution of the assets of the estate, nor with those regulations which stipulate the class of investments which are deemed proper to be made and which will meet with the approval of the court. In such contingencies, it will be readily seen that a loss under a bond can be made even though the applicant be perfectly reputable. Another danger is that the principal will not keep the funds of the estate separate and distinct from his own and so designated as to be easily identified

at all times. Such a state of affairs makes it difficult, if not impossible, to trace and follow up the various investments, so that when the final accounting is had, it is highly probable that a loss will occur.

CLASSIFICATION OF JUDICIAL BONDS.

For the purposes of this chapter, Judicial Bonds will be divided into five general groups:

- 1—Bonds given on behalf of administrators, executors, assignees, receivers, etc., or those bonds filed in "short term trusts."
- 2—Bonds executed on behalf of guardians, trustees, conservators, committees, etc., or bonds filed for all permanent or "long term trusts."
- 3—Bonds filed in court proceedings such as attachment, replevin, injunction, for appeal, security for costs, sequestration, etc., or those guaranteeing the prompt payment of money.
- 4—Bail Bonds.
- 5—Libel Bonds required in admiralty proceedings in the Federal Courts.

1—BONDS OF ADMINISTRATORS, EXECUTORS, ASSIGNEES, RECEIVERS, ETC.*

Bonds under this class are termed "short term trusts" for the reason that estates handled by such fiduciaries are usually wound up or settled in less than two years. Generally speaking, these trusts are those in which the duties of the person administering the estate under proper legal supervision and direction are practically comprehended in a collection and distribution of the assets; in contradistinction to "long term trusts" where the duties of the trustee, etc., are of a continuing nature and involve the preservation of

* See Appendix, page 213.

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the property, whether by investment, re-investment, or by whatever other means are adopted from the necessity imposed by the nature of the trust.

It is becoming more and more a general practice for surety companies to secure, whenever possible, joint control with the fiduciary of all funds handled by him in such capacity.* This cannot be done, however, in all cases of "short term trusts," and companies are willing to execute these bonds without such control provided the standing of the fiduciary, with reference to his financial worth and integrity, is high, and if he is represented by reputable and substantial attorneys. One of the reasons why such exceptions are made is that estates coming under this group as a rule are wound up under the scrutiny of the heirs or creditors.

In order to determine the advisability of the execution and proper underwriting of these obligations, the surety endeavors, by means of a series of questions, to elicit in the application for the bond such information as will furnish a correct idea of the applicant's responsibility, the duties of the trust which he assumes, the nature of assets and liabilities coming under his charge, and the possibilities as to whether any unusual hazards will arise during the administration of the trust.** The following are the leading questions in the application:

Inquiries in Application.

a—*Names and addresses of attorneys connected with the estate.*

The standing of the attorneys who are interested in the administration of any estate should have a great deal to do with the acceptance of the risk, for even though the lawyers have no legal power to control the acts of the principal, they are, as a rule, in such close relationship to him that he is willing to, and usually does, abide by their directions and advice. They will, if men of high standing, see

* See Appendix, page 157.

** See Appendix, page 213.

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that the estate is administered by the applicant according to law.

b—*The name of the bank in which deposits will be kept, and that of the depository of the securities. Name in which deposits are to be kept, and the means taken for proper identification of the funds.*

The purpose of obtaining this information is to ascertain whether the bank in which the funds are deposited is a strong and safe institution and one approved by court, and whether the funds so deposited, belonging to the estate to be administered, will be so designated as to be readily distinguished from the personal property of the fiduciary.

c—*Whether the cash coming into the hands of the applicant is to be invested during the administration; and if so, how?*

This question is asked for the reason that, if there be any cash belonging to the estate, it is desirable to ascertain if the same will be invested by the fiduciary or distributed. If investments are to be made, it is important to see if they be in accordance with the law or the ruling of court.

d—*Whether the principal is indebted to the estate, the amount if any, and how secured?*

Any risk in which the principal owes money to the estate should be scrutinized with the greatest care, in order to be certain that the applicant is in a position to pay any such indebtedness. Such amounts are held to be assets of the estate coming into the hands of the fiduciary, and, therefore, the bond is responsible for any loss occurring through the non-collection of the same.

e—*Whether the principal owns property, real or personal? Description of same.*

These questions are important in order to secure a detailed financial statement from the principal. Due al-

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lowance should be made for depreciation in values given. It is reasonable to suppose that if the principal under a bond is possessed of considerable means, the risk is more desirable than if he be a person of no means, for, should a loss occur, the surety would be somewhat protected by the principal's property. From the answers given to these questions an opportunity is also afforded to judge whether the principal is a successful business man. The supposition usually arrived at is that a person who can successfully handle his own affairs can likewise satisfactorily administer an estate.

f—*The date of death of deceased.*

The surety should know of any unusual delay in filing bond. If such should turn out to be the case, an investigation should be made as to the cause of the delay, for the purpose of determining if the estate is still intact.

g—*Names, addresses and relationship of next kin, legatees, heirs-at-law and all persons interested in the estate.*

This information will enable the surety to get into closer touch with the administration of the estate, because the answers elicited in response to the above inquiries often throw considerable light upon the methods and conditions under which the estate is to be administered.

h—*Description of assets, real and personal, and the liabilities of the estate.*

This will give information as to the size and character of the estate, and show to whom the debts are due. It is important for the surety to know what portion of the estate is in real and what portion is personal property.

Inquiries to Receiver or Assignee.

If a bond under this class is required by a receiver or assignee, inquiry should be made as to whether the assets

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are to be converted into cash for distribution among the creditors, or, whether on the other hand a reorganization of the business or estate involved is expected. There is considerably more hazard attached to a bond where the receiver or assignee is to continue the business placed in his hands by the trust, than in the case where he is simply appointed for its liquidation.

Additional Information Desired.

The foregoing brief statement gives the major points which ought to be considered in the execution of bonds under the classification of "short term trusts." However, additional investigation should be made before the bond is executed by the agent or solicitor, and especially as to the integrity and standing of the principal in his community. To emphasize the necessity of this, it is well to bear in mind that in these and other fiduciary bonds, the surety guarantees not only the fidelity and honesty of the principal but also that he will properly handle the funds of the estate according to law.

Indemnity Agreement Important.

In order to facilitate both the collection of the premiums and also to emphasize the conditions under which the bond is executed on behalf of the principal, it is customary for the principal to sign what is known as an Indemnity Agreement. In this connection an agent or solicitor will save himself endless trouble and avoid any misunderstandings, which might arise in regard to the collection of the first and subsequent years' premiums (such amounts should be filled in most carefully in the Indemnity Agreement before the signature of the principal is attached), if he will see that the principal reads this agreement.

In addition to paying the annual premium, the principal agrees when signing the "Indemnity Agreement" that certain things will be done by him during the administration, such as:

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- a—*To furnish the company with copies of all important court papers connected with the settlement of the estate; i. e., the inventory, accountings, etc.*
- b—*To deposit cash and security belonging to the estate in the bank or trust company designated in his application, and to permit the representative of the surety to examine them at all reasonable times.*
- c—*To secure an order of court before converting any of the assets of the estate into cash.*
- d—*To withdraw money from bank only by check signed in his fiduciary capacity and only for purposes connected with the administration of trust.*
- e—*To keep true and accurate papers and books of account of his trust, such books and accounts to be open to the free and full inspection by representative of the surety.*
- f—*To furnish the surety upon completion of trust with full and complete evidence of the termination of liability under his bond.*

If the principal will carry out the obligations to which he agrees when signing the Indemnity Agreement, there will be little danger of loss under the bond. However, the surety ought to receive from the principal a duplicate of all papers filed in court, as well as a copy of the order discharging him as such fiduciary, which order necessarily cancels all future liability under his bond, and does away with the necessity of the surety calling on the agent for same.

2—BONDS EXECUTED ON BEHALF OF GUARDIANS, TRUSTEES, CONSERVATORS, COMMITTEES, ETC.*

Bonds of this class are termed "long term trusts," and cover those risks in which the estate will be in the hands of the fiduciary for a longer term than two years. Experience shows that there is much more hazard in the execution of bonds covering "long term trusts" than in those of the

* See Appendix, page 215.

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former class, and it is the general policy of all surety companies in executing them to secure joint control of the funds with the principal.* In such cases the securities should be deposited in a safe deposit box, and the cash in a bank designated by the court of proper jurisdiction, subject only to the joint access or signature of the fiduciary in his official capacity and the agent as representative of the surety.

Usual Inquiries on Application.

The information necessary for the proper underwriting of bonds on behalf of fiduciaries in "long term trusts" is obtained in a manner similar to the method pursued in regard to bonds filed in "short term trusts," the chief points to be considered being as follows:**

a—*Has a bond been given in the estate before?*

No surety company cares to write bonds on behalf of fiduciaries in partly administered estates, whether they come under the head of "short" or "long term trusts." There are, however, some exceptions, but no bond under these conditions should be executed until a most thorough investigation is made and satisfactory explanation is given why a new bond is desired. Furthermore an audit, made by a regular court officer, to ascertain whether the estate has been properly administered and if the assets are in good shape, should invariably be secured, for the last obligation, as a rule, carries the liability from the beginning of the trust.

b—*Names of attorneys.* (See "short term trusts," page 85.)

c—*Is applicant indebted to trust estate—amount and how secured?* (See "short term trusts," page 86.)

d—*Full names, ages, and residences of wards, and the beneficiaries of the trust, with the names of the persons entitled to the trust funds in event of the death of the ward during the administration of the estate.*

* See Appendix, page 157.

** See Appendix, page 215.

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From this information an idea may be gathered as to the length of time the estate is likely to remain in the hands of the principal. In connection with this an investigation should be made to ascertain the relationship of the principal to the wards or beneficiaries of the estate. If the applicant be either an heir or a close blood relation, care should be taken to see that the Indemnity Agreement is thoroughly understood in every particular, as experience and statistics show that parents or close relations of the wards or beneficiaries, on account of such relationship, are apt to think that they can administer the estate with more latitude than if no such relationship existed.

e—*A description of the estate coming into the hands of the applicant, and from what source it is derived.*
(See short term trusts, page 87.)

f—*With whom are wards living, and how much is required for their annual support.*

An order of court allowing expenditures of funds for the support of ward should always be secured by the principal. Answers to the above inquiry are important especially when taken in connection with that of the data elicited under (d) (*supra*).

g—*Is any portion of the estate already invested,—by whom, and under what authority?*

No investment by the principal should be made without an order of court.

h—*Financial worth of principal.*

The same requirements exist here as under "short term trusts."

As is the case with "short term trusts," full investigation as to the moral standing and integrity of the principal should be made in the same manner as under fidelity propositions.

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Indemnity Agreement.

The Indemnity Agreement to be signed in "long term trusts" is substantially the same as that used in "short term trusts," to which the reader should refer (see page 213), but as the "long term" risks are only written with joint control, the Indemnity Agreement contains a clause providing for such supervision over the funds of the estate by the surety.*

3—BONDS FILED IN COURT PROCEEDINGS.**

Bonds of this class are the most hazardous of all coming under the judicial classification, as they are absolute promises for the payment of money under certain definite contingencies. The universal practice of all surety companies is to secure collateral for an amount at least 10% greater than the amount of the bond—the 10% excess being given to cover the court costs in the case.

A general misunderstanding seems to exist in connection with this branch of the surety business as to the practice of surety companies in not accepting personal indemnity as sufficient collateral for their protection under these bonds, while they will take such indemnity under many of the obligations of other classes. But it must be considered that the obligation of a Judicial Bond is of a distinctive nature, and the security mentioned above is not acceptable and cannot be depended upon in Judicial Bonds, inasmuch as such obligations guarantee the full and prompt payment of money. Experience proves that the collection of money from personal indemnitors is both difficult and expensive.

The few exceptions where deviation is made from the above rule are in the case of bonds for small amounts given on behalf of railroads, railways and other large corporations. As full collateral is secured on these propositions, the informa-

* See Appendix, page 215.

** As Attachment, Replevin, Injunction, Appeal, etc.

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tion required in the application is simply that which is necessary for the proper preparation of the bond. A financial statement of the principal and a complete filling in and signing of the Indemnity Agreement is all that is required. Care should be taken to see that the signature of the principal is legally attested and, in the case of a corporation, that the corporate seal is affixed.*

4—BAIL BONDS.

It is the custom of many companies not to write Criminal Bail Bonds, and no company will write them unless it receives collateral in the full amount of the bond.

Recognizance Bonds in civil actions are less hazardous by far than Criminal Bail Bonds, and are executed by most companies, but only upon the same collateral requirements.

5—LIBEL BONDS.

Bonds of this character are given in admiralty proceedings. They are similar to attachment bonds. The purpose of a Libel Bond is to cover any damage which may be sustained by the owner of a vessel on account of the wrongful seizure of the ship for debt or any other claim.**

JUDICIAL BOND FORMS.

Bonds to be filed in court are statutory in form and copies of the same may usually be obtained from the clerks of the various courts. They differ somewhat in form, but the liability is practically the same in each state.

CANCELLATION OR RELEASE OF JUDICIAL BONDS.

The subject of securing the necessary release of bonds treated in this chapter is one that causes the agent and solicitor much annoyance. This can be saved if a proper understanding is had with the principal at the time of the

* See Appendix, page 217.

** Libel Bonds are also given for the release of a vessel from seizure under a libel.

signing of the Indemnity Agreement. Liability under Fiduciary Bonds can only be terminated by certain legal actions, and the trouble above referred to is caused by the difficulty the surety companies have in obtaining certified copies of the necessary papers showing a legal release of the obligation. The mere statement of the attorney or principal under a bond of the foregoing classes is not sufficient evidence to warrant the surety to legally cancel the liability.

1—MANNER OF OBTAINING A RELEASE OF LIABILITY FOR BONDS OF "SHORT AND LONG TERM TRUSTS."

a—*Completion of Trust.*—When the fiduciary has completed his trust, it is proper for him to secure (both for the protection of himself and his surety) an order of court discharging him from any further duties as a trustee, etc. Such an order can be obtained from the court upon proper petition, and its issuance terminates the future liability of the surety. A certified copy of this order should be furnished the surety. Before granting an order of this nature to a fiduciary, it is necessary for him to file a final account showing all transactions had up to the time such account is stated. The same should be approved, ratified and passed by the court, so that the trustee may proceed to complete the trust and receive his discharge. In some cases a certified copy of this final account will be acceptable to the surety, although a duly authenticated order of dismissal is always more to be desired.

b—*Improper Administration of Trust.*—When the surety has reason to believe that the estate is being mismanaged, it should terminate its liability under bond by petitioning the court for a release. The statutes in nearly every state make provision for such a contingency. In some states a reason must be given in the petition, and in others none is required. When the discharge is granted, the Court requires the fiduciary to file a new bond. The future liability under the first bond terminates upon the filing of the new obligation,

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and a copy of such release, with satisfactory evidence of the filing of the second bond, should be furnished the surety. In some states, however, the surety is released only by the fiduciary's completing his trust. In all cases, where a petition of this nature is granted, the surety is responsible for liability antedating its release.

2—CONCERNING RELEASE OF BONDS FILED IN COURT PROCEEDINGS.

The statutes of no state provide for the release of the liability of a surety on bonds filed in court proceedings before the judgment is satisfied, damages paid, etc. When the liability which requires a bond to be filed in court proceedings has been terminated, the surety should be furnished with copy of satisfaction, or a certificate of the clerk of the court to that effect, or else with a verified copy of the docket entries showing that the liability is at an end.

3—RELEASE OF BAIL AND LIBEL BONDS.

The same conditions apply in the case of bail and libel bonds, as are noted under (2) above.

RENEWALS ON SECOND AND SUBSEQUENT YEARS' PREMIUMS.

The term "renewal" is in some ways a misnomer, but is used for want of a better expression. Judicial Bonds are not renewed: they are continuous and remain in force until the completion of the trust, or removal of the fiduciary. It is a practice, therefore, for surety companies to bill to their agents at the beginning of each annual period the premium for the coming year. Solicitors and agents frequently find these premiums difficult to collect. This is caused by their not having emphatically impressed upon the principal, when application for the bond was made, that he agreed to pay the surety an annual premium until he, the principal, furnishes the company with a legal release from liability under his bond.

CHAPTER VIII.

MISCELLANEOUS INDEMNITY BONDS.

There are many necessary kinds of Miscellaneous Indemnity Bonds, the liability thereunder having a wide range. The opinion as to the advisability of the acceptance of bonds of this class differs greatly among surety companies, so that all agents and solicitors should inform themselves as to the policy of the company with which they are associated. The underwriter on a proposition requiring a bond of this class should be furnished with full and detailed information as to the risk, the financial responsibility of the applicant, together with a statement of the protection that will be offered the surety in the way of collateral and security. The most usual bonds of this class, that are generally brought to the attention of the agent, are, as follows:

VARIOUS KINDS OF MISCELLANEOUS INDEMNITY BONDS.

1—BONDS OF INDEMNITY COVERING LOST INSTRUMENTS.

Bonds of this group, when the applicant's reputation is unquestionable and after certain preliminary requirements have been fulfilled, and a proper rate is obtained, may be stated to be acceptable propositions. When satisfactory they are written for a term which largely depends upon the statute of limitations in effect in the particular state in which the risk is located. This period may vary from two to twenty years, and in some rare instances is unlimited. It may also depend upon the character of the lost instrument, the place of execution and performance of the contract (if it be a contract), and the laws of the state which may govern the validity, interpretation or performance of such contract.

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A flat premium for the life of the bond should be charged and ought to be figured on the penalty, although in most cases the liability is but one-half of the penalty of the bond.

As conditions under which bonds of this character are desired vary greatly, care should be used to ascertain explicitly the exact nature of the guarantee to be supplied. An affidavit should be secured from the applicant (and in complicated cases from others familiar with the information desired) embodying the following points:

- a—*An exact description of the lost instrument, giving numbers or other means of identification.*
- b—*Time, place and conditions under which it was last seen.*
- c—*The probable manner of its loss or destruction to the best of the affiant's knowledge and belief. (The statement on this point is necessarily somewhat vague in a great many instances, but is desirable as it may throw light on the applicant's business ability and general trustworthiness.)*
- d—*The affidavit should also state that the instrument was never endorsed, transferred, or rendered negotiable in any manner, and that the sworn statement is made for the specific purpose of inducing the surety to execute the bond applied for. This is desirable, as it gives a basis of procedure against an applicant who has made wilful misstatements and who has secured bond with a fraudulent intent.*

An investigation of the applicant should be made in order to insure that he is a person upon whose word reliance can be placed, and not a person habitually careless or of loose business methods, who might have permitted, or allowed, the instrument to be disposed of without being fully cognizant

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of his act. These cases are rare, but they do occur, and should be guarded against.

Examples of Risks.

The most desirable risks of this class are those in which the instrument has been lost by fire, or in some manner which would permit of no doubt of its having passed completely out of existence. In these cases the affidavit of the applicant is nearly always definite, and, after investigation, usually may be accepted as final.

A slightly more hazardous risk is when the instrument has been lost or mislaid while in the possession of the principal, or a thoroughly trustworthy agent, and where there is some chance of its coming to light and falling into the hands of persons, who will see that it is properly returned to the obligee under the bond.

A risk that presents a still greater hazard is where the instrument has been lost in some unknown manner, and is likely to come into the possession of persons who might attempt to convert it to their own profit.

Perhaps the most hazardous risk under this caption is where the instrument has been stolen. A bond should not be executed to cover such a condition unless a very long period of time has elapsed since the theft, and something definite is known regarding the person taking it, the manner in which it was obtained, etc. As the hazard depends greatly upon the negotiability of the instrument, it is hard to classify accurately and in concise form, the exact hazard from this cause, as the ease with which various instruments can be negotiated or turned to improper use varies. The personal equation also enters as a phase of this risk, for even though the instrument should fall into the wrong hands, much would depend upon the skill and knowledge which is used in attempting to realize on it.

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Hazard on the Risks.

The hazard under bonds of this class differs considerably in each risk taken, and is principally influenced by the manner in which the instrument was lost or destroyed. All risks of this class will be affected in varying degrees according to the exact kind of instrument concerned. For instance, a lost bank book representing an account upon which the name of the depositor might be easily forged, would be more hazardous than a guarantee based on a lost life insurance policy. It is practically certain that the policy-holder would be personally known to the agent, with the almost necessary result that the business of realizing upon the policy to the detriment of the surety would have to be transacted through the agent, whereas in some cases a third party can make withdrawals from a savings bank account. As practically every negotiable instrument having a transferable value may be embraced under bonds of this kind, a complete list would be too voluminous for practical use. The most usual cases, however, are those covering the loss of bank books, certificates of deposit, drafts, warehouse receipts, promissory notes, endorsed checks, stocks, unregistered bonds, convertible securities of all kinds, policies of insurance having cash surrender or loan value, etc.

2—BONDS OF INDEMNITY REQUIRED BY LIFE INSURANCE COMPANIES AND FRATERNAL ORDERS.

Another miscellaneous form of indemnity is that required by life insurance companies or fraternal orders paying death benefits, in the case of a person supposed to be dead, where no actual proof of death can be procured. Under proper conditions these bonds may be written, although they should be looked into most minutely to eliminate as far as possible any doubt of the actual death of the person upon whom the insurance was issued.

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3—INDEMNITY BONDS COVERING TITLES TO REAL AND PERSONAL PROPERTY.

These bonds are given to protect a third person from loss in selling or buying property, the title to which is not altogether clear. Where it is desired to guarantee title to real property, the proposition should be examined carefully, in order to determine whether or not it should be referred to a title insurance company having the proper facilities for the investigation and execution of such guaranties.

In case of personal property (as of a manufactured article when infringement upon patent is alleged, or even upon real property which has certain debts or liens against it), bonds may be executed by a surety company in exceptional instances. However, in those bonds which cover patent infringements, care should be taken to discern whether the guarantee required could not better be given by a patent guarantee company.

4—BONDS OF INDEMNITY GUARANTEEING THE PRODUCTION OF CERTAIN ARTICLES AT A GIVEN TIME.

Another kind of bond coming under this general head is that which is given for guaranteeing the production, under certain circumstances or at a certain time, of an instrument or document. (These bonds must not be confused with bonds of a somewhat similar nature given to the United States Custom House. See chapter XI.) For example, a bond might be required by a railroad of the consignee when a bill of lading was not at hand at the time the goods it covered were wanted. It also is necessary in some cases to have a bond of this kind before a certain instrument can be issued, as, for instance, a deed of property which is or might be subject to a lien or debt. In this latter case, the bond is slightly different from the one above mentioned referring to the sale or purchase of property.

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5—MISCELLANEOUS INDEMNITY BONDS IN CONNECTION WITH JUDICIAL CASES.

Under this caption the bonds usually noted are as follows:

- a—*Bonds in favor of an executor or administrator who for certain reasons has advanced money to a person entitled to a portion of the funds of the estate under his control.*

The condition of this bond would be that, in the event of a claim being filed against the estate in excess of the funds in the hands of the fiduciary, the person to whom the money has been advanced will repay the amount so advanced or a sum sufficient to liquidate the debts of the estate. In such bonds great care should be taken to see that the applicant for the bond is either worth considerable money, or that the property or money given him, and covered by the bond, is properly set aside and held pending the liquidation of the debts of the estate.

- b—*Bonds given to a person purchasing real property from an estate and conditioned to protect the purchaser against claims filed in the estate, which would be liens on the property in the event of its being sold prior to the expiration of the time fixed by law for the filing of claims against the estate.*

These obligations are usually required in those states, where the time in which claims may be filed and made legally binding on the estate is unusually long. They should be issued only when the applicant is financially responsible and when good convertible collateral is furnished for the protection of the surety. In addition to this precaution, the assets of the estate should be very much in excess of all known debts.

These bonds should not be confused with ordinary Judicial Bonds for the sale of real estate, which guarantee that the applicant will properly sell, deposit, or dispose of the funds arising therefrom according to law.

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BOND FORMS.

The form required for a Miscellaneous Indemnity Bond must be drawn to cover the circumstances in each case. In all instances, however, it should bear the names of the principal as well as that of the surety; and should never be executed where the former is omitted, for the reason, that in case of default the surety desires to hold the principal under the common law for any loss sustained in addition to the security offered by the indemnity given when the bond is issued. In addition the form in the case of lost instruments should contain certain recitals embodying in effect the statements contained in the affidavit as to the description of the instrument, and manner of its loss, etc. It should be so drawn as to limit the surety to the amount named in the obligation, for, in certain cases in the absence of this provision, it might be treated as an agreement to be liable for a greater sum, or to pay to individuals or corporations other than those intended by the surety when assuming the risk.

CHAPTER IX.

BONDS ON BEHALF OF STATE, COUNTY AND MUNICIPAL OFFICIALS.

These bonds are given to cover state, county, and municipal officers together with their deputies and clerks, and guarantee the faithful performance of their official duties, which are usually prescribed by law. As in a majority of cases the form of bond is fixed by statute, the surety can in no way modify the form or reduce the liability thereby assumed. The laws of different states and municipalities applicable to officials of the same title vary materially, and the true liability can only be determined after consulting the ordinance or law covering the particular office. In most cases the obligations treated under this heading guarantee not only the honesty of the principal but also the faithful performance of his duty, and this, of course, imposes on the surety greater liability than is assumed under fidelity risks, where the surety's liability is usually limited to such acts as may be occasioned by larceny or embezzlement.

The many technical points to be considered in connection with the different state laws and the influences brought to bear on the election or appointment of these officials make this division of the surety business most hazardous. Therefore, it would be well for the agent or solicitor to post himself as to what is the effect of the law in relation to public officials in his particular state or municipality, so that he may be able to talk intelligently regarding the liability thereunder. The agent should also furnish the surety with full information as to the laws or ordinances applicable to the bonds desired.

CLASSIFICATION OF BONDS CONSIDERED IN THIS CHAPTER.

Bonds given on behalf of state, county and city officials may be divided into two general classes.

1—BONDS OF OFFICIALS NOT HANDLING MONEY.

Bonds of this group cover the performance of official duties, and, in addition, practically guarantee the applicant's integrity and knowledge of the proper method to pursue in the conduct of his office. As the officers under this class do not handle money, the risk on the bond is not as great as would be the case of those treated under (2), though in some instances where fraud may be practiced, large losses may be sustained.

2—BONDS OF OFFICIALS HANDLING MONEY.

Bonds of this class guarantee, in addition to the faithful performance of duty, that all funds will be properly accounted for as the law prescribes. No such bond should be written until the applicant passes an investigation, that will substantiate the fact that he has the necessary business capacity to fill the position properly. In addition to this, the agent should ascertain whether the risk is a good moral one.

BONDS FROM EMPLOYEES SHOULD BE REQUIRED.

When the surety company issues a statutory form of bond for any official having deputies or employees, it virtually covers the office as well as the individual officer, and in event of defalcation on the part of any employee or deputy, he and his surety would both be liable. For this reason the company should always insist before executing such instruments (both for its own protection as well as that of its principal), that the chief official require bonds in his favor from all deputies and employees under him, with a penalty large enough to protect him in any emergency.

Important to Know Who is Responsible.—One of the most important facts to be determined in the underwriting of the

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bond of a public official who handles money is, whether he is absolutely responsible for the funds in his care, i. e., held by him or deposited in bank. The reason for this is, that the courts of several states have held that the official and his surety are not liable for the loss of public funds occasioned by bank failure, provided the official exercise due diligence in selecting a depository. In a number of states the depositories are selected by law; in which event, if the official complies with such laws in depositing the public funds coming into his possession in the designated banks, neither he nor his surety is liable for any loss that may be so occasioned. In a majority of the states, however, there are no laws regulating the deposit of public funds, so that the official and his surety are held as absolute guarantors of such moneys; and in event of a bank failure, one or the other must stand the loss thus incurred. When this condition exists (and great care should be exercised by agents and solicitors in determining this fact), the surety should never execute an official's bond, where the statutory form required makes it guarantee the depository, unless the official exacts and receives indemnity from the depository to hold him harmless in the event of failure. This indemnity should be in the form of corporate surety. The bond should be so drawn as to run to the official and the surety on his official bond, and should be held by the latter for its protection in event of trouble. The greatest care should be taken to see that such bond is for an amount equal to the largest sum likely to be on deposit at any one time to the credit of the official.

The importance of this precaution is frequently misunderstood by the official who is to be bonded, but as it is as much for his protection as that of his surety, his co-operation should be readily secured. Solicitors and agents will find great pressure brought to bear upon the officials to accept the indemnity of the directors of the depository selected. Experience shows, however, that, when a loss occurs by failure,

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the directors are generally so involved in the defunct institution, that the indemnity they have furnished the official for the protection of the public funds is valueless.

SOME OF THE HAZARDOUS RISKS OF THIS CLASS.

There are numerous public officials with as many titles and varying greatly in hazard. However, from the discussion of some of the principal risks (see below), an intelligent idea may be formed as to the desirability of these bonds, regardless of the title of the individual concerned.

a—*Tax Collectors, County Treasurers, or Sheriffs and those who "ex officio" Collect Taxes.*—This is considered the most hazardous class of Public Official Bonds, as these individuals not only handle large sums of money, but under the laws relating to their duties and the statutory form of bond required, the official and his surety are also frequently liable for all uncollected taxes, unless he is, or can be, specifically relieved from this by law. When the official is responsible for such uncollected taxes, inasmuch as failure to make such collections may sometimes not be caused by dishonesty, it is most essential that the applicant, in addition to satisfactorily passing a rigid fidelity investigation, should be possessed of sufficient property to protect the surety in event of a loss.

When a county treasurer or other official does not collect taxes, but is merely the custodian of public moneys, the essential qualifications needed to make the risk a good one are integrity and business capacity sufficient to enable him to perform properly the duties of his position. He should, in addition, be a man of some financial resources.

b—*Sheriffs, Constables, etc.**—Among the several classes of officials, who are looked upon with more or less disfavor are sheriffs, deputy sheriffs and constables. Such appointees are not, as a rule, of such standing in their respective communities as to make them desirable risks. This condition

*This group includes any official with authority to make arrests or serve writs, such as Game Wardens, Deputy Fish and Game Commissioners, etc.

is the result of the mode of appointing these public officers. They are frequently selected more on account of their personal characteristics than for the possession of the specific qualifications essential for the proper discharge of the duties they are obligated to perform. The result of this is, that the general standing of the men appointed is, as a rule, not as high as would be the case where a mercantile or manufacturing establishment found it necessary to repose the same responsibility in an employee.

c—*Holdovers in Office*.—Much confusion has been caused among agents and solicitors by the fact that surety companies do not, as a rule, desire to issue bonds for "holdovers" in office (an official elected or appointed to succeed himself). Though this policy seems to be contrary to their practice when viewing applicants for Fidelity Bonds, where great stress is laid upon the advantage of long service, experience proves that most of the severe losses occasioned on bonds of this class arise on those officials, who are bonded for a term subsequent to that of their first election or appointment. The difficulty in the field, and the misunderstanding of the attitude of the surety in this connection, is due to the fact that agents do not always comprehend that examination of losses show that "holdovers" in office, who are dishonest, and who know at the time of their election or appointment the day upon which their books and accounts are to be examined and settlement made for the previous term, borrow money from their friends to make up any deficiency at the time of the filing of the new bond, and then pay back the money so borrowed from the funds for which the second bond is liable. In such cases it is practically impossible for the surety to prove that the loss occurred prior to the execution of the second bond. Again, when a "holdover" official is dishonest and his first bond has been furnished by friends, he will frequently secure, if possible, a corporate surety bond for his other term of office, in order that the shortage will have to be borne by the surety company and not his friends.

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Therefore, no corporate surety bond should be executed to succeed a bond or bonds previously given to cover the term of the office of an official. The hazard is great, for even though the latest bond may be given only for a term of one year or a portion of that period, yet the surety might be called upon to make good a shortage that really occurred prior to the execution of its bond, because of the difficulty of proving exactly when the shortage occurred. This principle of underwriting depends somewhat on how, and under what conditions, the funds are to be handled, and does not apply to a renewal of a bond by the surety who executed the obligation of the official for his first term of office.

TERM OF AN OFFICIAL BOND.

In order to avoid misunderstanding as to the term of these bonds, it may be well to state that when a statutory form of bond is executed, the surety is liable under the original bond for the full term of office for which the official is elected or appointed. In those few cases where the bond is not statutory in form, it is advisable to draw it for an annual term with a cancellation clause. When the surety executes a statutory form of bond, it is bound for the full term of office, unless by statute a release from liability can be secured by means of a petition or otherwise. In most states, however, there is no such provision.

DIFFERENT FROM FIDELITY BONDS.

The practice of surety companies in handling Public Official Bonds is different from their mode of treating Fidelity Bonds. A return premium is not allowed before the end of the term for which bond is written, unless the actual instrument or bond is returned for cancellation, or release of liability secured in writing from some state, county or municipal officer empowered with authority to give such release; for even though the official retires from his position during his term of office, as long as the bond remains on file, recovery can be

obtained (within the statutes of limitations) from the surety in the event of a subsequent discovery of loss. This is not the case in the ordinary Fidelity Bond, which limits discovery of loss to a period of generally six months after the retirement of the employee.

We have seen in the chapter on "Fidelity Bonds," that the Employer's Statement is the warranty or the contract between the surety and the assured; while in the judicial cases (chap. VII), the will, deed of trust or other instrument, together with the laws applicable to this class of business are necessary to determine the conditions under which the applicant is to perform his obligations. In the case of Public Official Bonds, however, it is not necessary to execute any additional instrument, for the reason that the duties and responsibilities of these officers are determined according to the laws pertaining to them in the different states. It is most desirable, as the laws in the various states differ greatly, for agents and solicitors, when submitting bonds, to give a digest or reference to the laws applicable to the particular position in question so that the surety may have exact knowledge of the obligations to be assumed in the execution of the bond.

THE APPLICATION AND INFORMATION DESIRED.

In order to explain the underwriting features of the most hazardous classes of Public Official Bonds, the typical questions found on an application form (see Appendix, page 220), are given below, together with the reasons why answers to them are necessary. In addition to the questions necessary for the proper drawing of the bond, such as:

1—*The applicant's name, His private and official address, Exact title of the state, county or municipal government, To whom the bond is to be given, The amount of bond, Date on which bond becomes effective, Official title of the applicant, Date of election or appointment, Beginning and termination of term* ———, the applicant is also asked to state his com-

pensation, and the manner of its payment. This is desirable, as very frequently it will be ascertained from such a question that the compensation of the official is insufficient for his support and those that may be dependent upon him, even when considering his income from sources outside of his official position. This additional information should also be elicited:

2—*A full statement of the duties and responsibilities of the office, and the applicant's knowledge of the conditions by which his official acts must be governed.*

The information thus secured has great bearing upon the desirability of the risk in so far as the applicant's ability to properly conduct the office, from a business point of view, is concerned.

3—*Does the applicant collect taxes? and if so, the amount of the levy? Liability for uncollected taxes, and how he can be relieved of such responsibility.*

4—*The approximate amount of money handled during the year, with month in which receipts are largest; the amount of money apt to be under applicant's control at any time; the length of such control, with daily average handled.*

From this information it can be determined whether the amount of the bond is large enough to cover the largest amount of money to be held at any one time. An idea is given of what that amount will be, with the conditions under which it is to be handled.

5—*Where the funds are deposited and by whom the depositories are designated. Does the law require the funds to be deposited as stated? Is the applicant responsible for the failure of the depository? In whose name are the deposits kept? Are the funds withdrawn from the depository by check of the applicant? If so, what signature, if any, is required? Are the funds paid out upon the warrants of other officials? and if so, do these warrants become part of the checks or drafts upon the depository?*

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6—*When the applicant is required to make reports. To whom are such made? When were the accounts of the office last examined? Who made such examinations? When is the applicant required to make settlements and with whom are they made?*

The purpose of asking such questions is to determine to whom the reports are made, and what system has been adopted according to law for the purpose of checking up and certifying to the accounts of the applicant. It is important for the surety that a verification and an examination of the applicant's accounts should be made at frequent intervals, and it reflects greatly upon the desirability of the risk if such examinations are made by disinterested auditors.

7—*Has the applicant previously occupied the position in question? If so, during what period? Who then furnished bond? Why change is now desired? Has application for a surety bond ever been declined? If so, by what company? with reasons for such declination.*

The answers to these questions determine whether the applicant is a holdover in office, and if so, whether he was bonded previously by any surety company in his position. If such is the case, the bond is undesirable. If the bond on behalf of the applicant has been declined by another surety company, it is most desirable to ascertain the reason for such action.

8—*Will the applicant continue in any business or employment during his term of office? If so, the character of such business and the probable net income derived from the same.*

The answers to these questions are essential, as it is most important for the surety to know whether the applicant's remuneration as derived from his official position and private business is sufficient for his support.

There is considerable latent danger in the bonding of any applicant for an official position, who is to continue in private business or employment during his term of office, as experience shows it is not an infrequent occurrence in losses under

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these bonds for the applicant to have appropriated public funds for the financing of his own business enterprises. This feature of the underwriting of Official Bonds should be given due consideration in determining the desirability of the risk.

9—*Financial resources of applicant.* In the application form (see Appendix, page 220), from which the questions above referred to have been taken, there are further questions which bring out the financial resources of the applicant, the amount of life insurance he carries, etc.

INDEMNITY AGREEMENT.

It is usual for the applicant for an Official Bond to sign an Indemnity Agreement which is attached to the application and on which questions similar to those above considered are asked. In connection with this agreement, it is important for agents and solicitors to see that the premium to be charged and the method of paying same are thoroughly understood by the applicant. Most companies agree under Official Bonds, when the term of office is two years or more, to allow a discount of 10% on all subsequent premiums after the first year's charge, if such premium is paid in advance for the entire term. When, however, the premium is to be paid annually, much trouble will be saved the agent and solicitor in the collection of subsequent years' premiums, if this part of the Indemnity Agreement is clearly and definitely understood.

The principal, in addition to agreeing in the Indemnity Agreement that he will pay the premium and hold the surety harmless for any loss that may be sustained under the bond, enters into a further contract that he will furnish the surety with a statement, when called for, showing all the receipts and disbursements of his office, the balances on hand, and in bank, together with certificates from the bank or banks verifying such balances. It is further agreed by the individual under bond, that he will allow a duly authorized representative of the surety to examine and

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check up his accounts, and, in addition, that he will render all possible assistance in connection therewith. Another clause of the contract is that the principal will not substitute another bond without first notifying his surety, and furnishing it with a full and proper release.

BOND FORMS.

As previously stated, the form of bond required in the obligations treated in this chapter is generally fixed by statutes, ordinances, etc., and is drawn to specifically apply to the particular position to be filled by the applicant.

CHAPTER X.

BONDS GIVEN TO THE UNITED STATES GOVERNMENT ON BEHALF OF ITS OFFI- CIALS AND EMPLOYEES.

In order to avoid any misunderstanding or confusion, it may be stated that the officials and employees of both the Internal Revenue and Custom House service are included in this chapter. Therefore, care should be taken to discriminate between the bonds of actual officials and employees of the Government and those which are filed by individuals and corporations not in the Government service, but transacting business with it.*

The bond required by the United States Government has an extremely broad scope, and covers not only honesty, but also faithful performance of duty. Statistics prove, however, that these obligations are not as disastrous as similar bonds given on behalf of state, county, and city officials, due, principally, to the very superior checking system in vogue throughout the departments of the Federal Government. The knowledge by the officials and employees of the strict supervision the Government exercises over them, and the fact that no expense is spared in the apprehension of a defaulter, has a very strong moral effect. In addition to this, the necessity for influence and recommendations in order to enable officials and employees to secure appointments, and also the fact that so many of the Government positions come under the Civil Service rule, combine with the above features to render the business attractive to surety companies. This is reflected in the low rate of premium charged.

* See Chapter XI.

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Owing to the numerous classes of positions in the Government and the varying conditions of employment, this particular division of the subject will be treated along very general lines. However, an endeavor will be made to give such a description of each class as will afford an intelligent idea of the various offices. Government business under this chapter, as a general rule, is desirable.

INVESTIGATION OF APPLICANT AND BOND FORMS.

The investigation of an applicant for Government service is conducted along the same lines as has been outlined in the chapter on Fidelity Bonds (chap. 1). The Government issues its own special form of bond, which is furnished when the appointment is made. In all cases it is necessary for the applicant to sign such bond. Care should be taken to see that there are no errors or erasures and that the bonds are properly and neatly signed, or they will not be accepted. In filling out an application for a bond to the Government,* the applicant must give his full name, the correct title, and the exact position he holds under the Government, as the approving officers of the various departments are very strict in having accuracy in these details.

Each individual employee is obliged to give a separate bond except in the case of postoffice employees, when the Government will accept its own form of schedule bond. This form, however, must be treated differently from that of the regular Schedule Bond in commercial use, as the Government will not permit any changes in it except the removal of such persons included thereunder as may be transferred or leave the service. If it is desired to cover additional employees in a postoffice where a schedule form of bond has been issued, an individual bond must be filed by each new employee.

In certain cases in the Government service, the chief official's bond, which runs to the Government, is responsible for the acts of his deputies and clerks. In such cases he should, of

* See Appendix, page 222.

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course, protect himself by exacting bonds from his subordinates, and care should be taken to see that they are in sufficiently large amounts to protect the official and his surety. In some instances these obligations are written upon the regular schedule forms in favor of the chief official himself, and the bond is filed with him. In other cases, however, the obligations may run direct to the Government and may be filed in the headquarters of the department. Where such is the case, the bond of the chief official is not as desirable, since he is still responsible for the acts of his subordinates, and recovery can be made for him upon their bonds only on the initiative of the Government.

CLASSIFICATION OF EMPLOYEES FURNISHING BONDS.

The employees of the Federal Government can be divided into the following classes for the purposes of this chapter.*

1—EMPLOYEES OF THE STATE DEPARTMENT.

a—*U. S. Consul Generals*.—These officials are appointed by the President for a term of four years, subject to removal at his pleasure, and are required to give bond in varying amounts according to the importance of the post to which they are assigned.

b—*Vice and Deputy Consuls*.—These officials are appointed by the Secretary of State, and give bond in the sum of \$2,000.

c—*U. S. Marshals (Consular Courts)*.—There are only three of these officials who are located in foreign ports.

The other officials who are required to give bonds are located in Washington.

2—EMPLOYEES OF THE TREASURY DEPARTMENT.

In this department there are a number of officials and employees who are required to file bonds in favor of the Government.

* Many of the bonds needed are to cover Government positions only in Washington, and they are not deemed of sufficient interest to be treated at length in a book of this character. The principal employees only are treated in this chapter.

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a—*Assistant Treasurers*.—In each of the nine Sub-Treasuries there is an Assistant Treasurer. These officials hold office for a term of four years, and must furnish bonds from \$150,000 to \$600,000.

b—*Mint Officers*.—At the various Mints, there are eighteen officers who are appointed for unlimited terms. They are required to give bonds varying from \$10,000 to \$100,000.

c—*Assay Officers*.—There are nine Assay Officers holding office for an indefinite period, who are required to give bonds in amounts varying from \$10,000 to \$50,000.

d—*Superintendent of Construction of Public Buildings*.—Wherever there is a public building in course of erection, there is a Superintendent of Construction, usually a local man, whose tenure of office is unlimited, and who is required to give bond in an adequate sum.

e—*Collectors of Customs*.—In each Custom House there is a Collector, who serves for a term of four years and who gives two bonds. One covers the duties of his office as Collector of Customs, and the other, the disbursement of money which he may make as a Special Disbursing Officer. The former bond is required by the United States Statutes, and the latter is demanded by the Government to cover disbursements of collections in connection with his office.

f—*Surveyors of Customs*.—There are forty-seven Surveyors of Customs, who hold office for a term of four years, and furnish bonds from \$1,000 to \$150,000.

g—*Naval Officers of Customs*.—There are seven of these officials located in the larger ports, who are required to furnish bond to the U. S. Government in penalty of \$10,000 to \$20,000.

h—*General Appraisers (Customs)*.—General Appraisers (Customs) hold office for an indefinite term and are many in number. The amounts of their bonds vary.

i—*Internal Revenue Collectors*.—In each Internal Revenue District there is a collector, who is required to give two bonds, one as Collector and one as Disbursing Agent. The term of office of these officials is unlimited.

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j—*Deputy Collectors of Internal Revenue*.—These officials are bonded in favor of the Collectors of Internal Revenue. Care should be taken to see that the obligations are made sufficiently large to properly protect the Revenue Collector and his surety in case of loss.

k—*Storekeepers-Gaugers*.—These Government officials are required to file bond in penalties ranging from \$5,000 to \$10,000. There are quite a number of these in each Internal Revenue District who are bonded direct to the Government. Formerly there were two distinct positions, but recently the duties of Storekeeper and Gauger have been merged, and the bond covers, in addition to the usual provisions, the performance of the duties of the dual offices. Owing to a recent change in the form of bond required of these officials, the hazard of these risks has been very materially increased.

3—EMPLOYEES OF THE WAR DEPARTMENT.

There are very few bonds required of the officials and employees in this department. Those most generally found are:

a—*Assistant Paymaster General*.—There are three Assistant Paymasters General in the Army with the rank of Colonel, each of whom is required to give bond in the penalty of \$25,000.

b—*Deputy Paymasters General*.—There are four Deputy Paymasters General in the Army, with the rank of Lieutenant-Colonel, who are required to give bond in the penalty of \$25,000.

c—*Paymasters*.—There are in the Army twenty Paymasters ranked as Major, bonded in the sum of \$50,000, and twenty-five Paymasters ranked as Captain, bonded in sums ranging from \$25,000 to \$50,000.

e—*Commissary and Assistant Commissaries of Subsistence*.—In the Subsistence Department of the Army there are: Three Commissaries-General with rank of Colonel, bonded for \$25,000 each; four Deputy Commissaries-General with rank

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of Lieutenant-Colonel, bonded for \$20,000 each; nine Commissaries with rank of Major, bonded for \$20,000 each; twenty-seven Commissaries with rank of Captain, bonded for \$15,000 each.

4—EMPLOYEES OF THE DEPARTMENT OF JUSTICE.

In the Department of Justice are a number of officials, who, in nearly every instance, serve at the pleasure of the President and who are required to be bonded. The bonds are written for a term of four years and are considered desirable risks.

a—*Disbursing Officers*.—There are quite a number of these officials, who are required to give bond in sums varying from \$5,000 to \$40,000.

b—*Circuit Court of Appeal Clerks*.—There are nine of these Clerks, who may be required by rule of Court to give bond.

c—*U. S. District and Circuit Court Clerks*.—In each Judicial District in the United States are employees known as District and Circuit Clerks. They are required to give bond in sums from \$5,000 to \$20,000.

e—*U. S. Commerce Court Clerks*.—This tribunal is provided for by the Act of Congress approved on June 18, 1910. The Clerk, Deputy Clerk, etc., are bonded in varying amounts.

f—*U. S. Marshals*.—There are a number of U. S. Marshals at various points. They are required to give bond in sums of \$20,000 to \$40,000.

g—*U. S. Deputy Marshals*.—United States Marshals have under them Deputy Marshals, and as the bond of the Marshal makes him responsible for the acts of his deputies, he should require them to furnish bonds running to himself, the penalty of which should be fixed by him in an amount sufficient to protect him under his bond. In such cases a form of bond covering larceny or embezzlement may be used. It can be written on a Schedule form covering the entire force of deputies.

h—*Other Officials Requiring Bonds in this Class are Located at Washington*.

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5—THE EMPLOYEES OF THE POST OFFICE DEPARTMENT.

This department has charge of the post offices, postal service, and the handling and transportation of mail. The bonds required for these purposes are numerous, and as a class they are considered good business.

a—*Postmasters*.—All Postmasters of the first, second, third and fourth classes are appointed by the President, and hold office for a term of four years, unless sooner removed or suspended. Until a recent ruling of the Post Office Department the Government would not accept corporate surety alone in these four classes, requiring in addition thereto individual sureties, at least two of whom were resident patrons of the post office in question. The reason for this was that in case of death or removal from office of the Postmaster, the sureties had to select one of their number to act as Postmaster until another appointment could be made. Now this has been changed, and sole corporate surety is accepted in all Postmaster's bonds.

As surety companies look upon the risks of Postmasters favorably, they issue a form of bond running to the individual sureties, if they have furnished the Postmasters' bond, indemnifying them from any loss that they may sustain by reason of their obligation. This is called a Re-indemnifying Bond. This fact should be borne in mind by agents, so that, when a postmaster is appointed by the President in any of the above classes, an endeavor may be made to secure the Re-indemnifying Bonds in favor of the personal sureties.

b—*Post Office Clerks*.—In every post office, particularly in cities of any size, there are a number of clerks; such as Assistant Postmasters, clerks in the Money Order, Registry and Stamp Divisions, as well as those attending to the inside clerical work of the office, who are required to give bond varying in penalty from \$1,000 to \$5,000. Corporate surety in such instances is acceptable to the Government.

Clerks in charge of substations are included in the class of clerks in post offices. They are required to give bond

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direct to the Government in the sum of \$5,000. If there are any additional clerks in the substation, the chief clerk in charge is responsible under his bond to the Government for the acts of his subordinates, and he should, and usually does, require all sub-clerks to give bonds in his favor in his official capacity. These bonds can be written on a form of bond covering larceny or embezzlement.

c—*Post Office Inspectors*.—In the postal service there are many hundreds of Post Office Inspectors, who are appointed by the Postmaster-General. They are required to file bond in the sum of \$5,000.

d—*Railroad Postal Clerks*.—These employees have charge of the handling of mail on the various transportation companies, and are required to file bonds in the penalty of \$1,000.

e—*Star Route Contractors*.—Under this head are included those bonds which are required of Star Route contractors who agree to carry mail between distant points. This should be properly classed as contract business, and the experience of surety companies has shown it to be so hazardous that practically all have discontinued writing this obligation. (See Miscellaneous Contract Bonds, ch. V.)

f—*Letter Carriers*.—All regular and substitute letter carriers are required to file bond in the penalty of \$1,000, and in the outlying or country districts, all rural and substitute rural letter carriers appointed are compelled to file bonds in the sum of \$500 each. There are thousands of these employees, and the risks are considered desirable, provided a proper rate can be secured.

6—EMPLOYEES OF THE NAVY DEPARTMENT.

In this department of the Federal Service there are many bonds required of the various officials. The majority of these employees are appointed by the President for an indefinite term, but the bonds are written for periods of four years.

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a—*Assistant Paymasters*.—There are sixty-five Assistant Paymasters in the Navy, and each is required to give bond in the sum of \$10,000.

b—*Passed Assistant Paymasters*.—There are thirty Passed Assistant Paymasters in the Navy, each being required to file bond in the sum of \$15,000.

c—*Paymasters*.—There are seventy-six Paymasters in the Navy; five holding rank of Lieutenant-Commander, and seventy-one the rank of Lieutenant. Paymasters are required to give bond in the sum of \$25,000.

d—*Pay Inspectors*.—There are fifteen Pay Inspectors in the Navy, each of whom is required to give bond in the sum of \$25,000.

e—*Pay Directors*.—There are fourteen Pay Directors in the Navy, each of whom is required to give bond in the sum of \$25,000.

f—*Assistant Quartermasters (Marine Corps)*.—There are eleven Assistant Quartermasters in the Pay Department of the Marine Corps, who are required to give bond in various amounts ranging from \$10,000 to \$30,000, according to grade.

g—*Paymasters (Marine Corps)*.—There are in the Marine Corps one Paymaster with rank of Colonel (bond required \$30,000); three Assistant Paymasters, one with rank of Lieutenant-Colonel (bond required \$25,000), one with rank of Major (bond required \$20,000), and one with rank of Captain (bond required \$20,000).

7—EMPLOYEES OF THE DEPARTMENT OF THE INTERIOR.

All appointments in the Department of the Interior are made by the President for a term of four years unless otherwise specified.

a—*Receivers of Public Money*.—There are over 100 Receivers of Public Money in the service of the U. S. Government, one being stationed wherever there is a Register of the General Land Office. The amounts of the bonds required from them

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vary, depending upon the importance of the station and the amount of money received.

b—*Registers of the Land Office.*—There are 104 of these employees, each of whom is required to file bond in the penalty of \$10,000.

c—*Special Agents.*—There are seventy-five Special Agents in the General Land Office, and six Special Agents in the Indian Office, all of whom are bonded in varying amounts. They are appointed by the Secretary of the Interior for an indefinite period, and are detailed for special work in the field, being usually connected with, or attached to the Land Office in cities of the West.

d—*Indian Agents.*—There is an Indian Agent at each of the several Indian agencies throughout the country, who is appointed by the President for a term of four years. In many cases these risks are hazardous, and should be scrutinized most carefully on account of the various conditions under which these employees handle money.

e—*Surveyors-General.*—There are seventeen Surveyors-General required to give bond.

f—*Pension Agents.*—There are eighteen Pension Agents stationed in the principal cities of the country, who are required to give bond. As all payments are made by check, the danger of these bonds lies in the fact that fraud may be perpetrated in the preparation of the pension papers.

g—*Special Disbursing Agents (Geological Survey).*—The Secretary of the Interior designates, from time to time certain employees of the Geological Survey for service as Special Disbursing Agents, who then have to give bond.

8—EMPLOYEES OF THE DEPARTMENT OF AGRICULTURE.

Very few of the officials and employees of this department are required to give bond. The only ones of interest to agents are the Temporary Disbursing Agents, who are scat-

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tered over the country, as they are required to file bonds ranging from \$2,000 to \$5,000.

All other officials and employees are located at Washington.

9—EMPLOYEES OF THE DEPARTMENT OF COMMERCE AND LABOR.

Officers and employees of this department required to give bond in favor of the Government are summarized as follows.

a—*Special Disbursing Agents*.—These agents are chosen by the Secretary from among persons already in the public service. They are usually appointed at remote stations in the outside service, or from officers whose duties require them to perform continuous travel.

b—*Chiefs of Parties in the Coast and Geodetic Survey*.—Bonds for these officials are given in order that the employees may receive advances of public funds. There are about seventy-five of these officers designated each year.

c—*U. S. Shipping Commissioners*.—These officers are found in most all of the ports of any size. Their number and the amount of their bond varies in many instances.

CHAPTER XI.

INTERNAL REVENUE AND CUSTOMS BONDS GIVEN TO THE UNITED STATES GOVERNMENT.

The bonds treated in this chapter are those which are given by individuals, firms or corporations transacting any business upon which taxes are levied, to comply with the Customs and Internal Revenue laws and regulations.

This particular class of bonds must not be confused with those explained in the chapters on Contract Constructural and Supply Bonds (running to the Government), and Bonds Given to the United States Government on Behalf of its Officials and Employees.

WHAT THE BOND GUARANTEES.

All business transacted within the limits of the United States, which contributes in any way to the income of the Federal Government, is subject to the Internal Revenue or Customs laws and regulations. In order to interfere as little as possible with the conduct of such business, it is possible, in a great many instances to file a bond with the Government, which in a large measure facilitates the business in question and the work of the Federal officers, making their relations less troublesome than if the Government were obliged to exercise minute supervision over them. Bonds of this kind, therefore, guarantee the honesty of the principal and compliance with such regulations as relate to the particular business, as well as furnish the Government with security that its revenue will be properly collected and that its laws will be followed, or that it will be compensated for any breach of the same.

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In most cases the liability is slight since the penalty for an infraction of the Federal law is great and generally means refusal on the part of the Government to permit the offender to continue in business. Furthermore, fines and penalties are exacted, as a rule, and criminal prosecution must be resorted to, in some cases, before any liability devolves upon the surety. This of course minimizes the chance of loss.

Through failure to understand properly the Internal Revenue laws or from accident or carelessness, assessments may be levied against distillers, brewers, tobacco, cigar manufacturers, etc., which are in the nature of judgments and become liens upon the premises or property of the principal until paid or satisfied. In such minor cases if the principal is reliable and responsible, these liens are promptly met and the surety's interests are protected. Where the offense is greater and the responsibility of the principal less, the surety will probably meet with loss. These bonds, therefore, must be underwritten upon the same general lines as any other class of bonds. The moral and financial standing of the principal are the important features and must be unquestioned to make this business desirable.

CLASSIFICATION OF THE BONDS.

1—INTERNAL REVENUE BONDS.

Form No. 3—Distillers Leaseholders.*—Bonds of this class are now seldom used, as they only apply to distilleries and improvements thereto which were erected prior to July 20, 1868.

Form No. 20—Brewers.—This form of bond is required to be filed at the time a brewer commences to transact business and must be renewed every four years from that date. The bond is general in character and guarantees that the brewer will comply with the Internal Revenue requirements.

*These numbers represent the government's designation of the bond form.

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Form No. 30—Annual Distillers.—By referring to this bond it will be noted that it is given to comply with the requirements of the Internal Revenue Department, and must be taken out by all distillers on May 1st of each year. It is, therefore, an annual bond.

Form No. 30½—Fruit Distillers.—This bond is similar in kind to Form No. 30, except that it is drawn to cover the distilling of fruit. It is an annual bond and is taken out each year on May 1st. Except on large and well-established distilleries this business is hazardous.

Form No. 40—Tobacco Manufacturers.—Every manufacturer of tobacco or snuff, before commencing business, must give a bond on Form No. 40 in a penal sum of not less than \$2,000 nor more than \$20,000, to be fixed by the Collector according to the quantum of business proposed to be done by the manufacturer. The bond is continuous in form, and additional bonds must be taken out from time to time as the manufacturer increases his number of hands or enlarges his plant.

Form No. 71—Cigar Manufacturers.—Every manufacturer of cigars or cigarettes, before commencing such manufacture must execute a bond in the penal sum of not less than \$200, to be approved by the Collector; and such bond must be executed on Form No. 71. The sum of the same may be increased from time to time and additional bond required as the manufacturer's business increases.

The total penalty of these bonds is as follows: from one to three cigarmakers (meaning where from one to three are employed), \$200; from four to eight, \$500; from nine to fifteen, \$1,000; from sixteen to twenty-five, \$2,000; from twenty-six to fifty, \$3,000; and for more than fifty, \$5,000. Cigar manufacturers are required to keep a special set of books, which must balance with those of the Collector. If this is not done the manufacturer and his surety are responsible for any discrepancies. This balancing of books only has reference to the number of pounds of tobacco received

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and made into cigars, and is for the purpose of ensuring the collecting of the tax on the same.

As there are many thousands of cigar manufacturers scattered over the country, this is a very common obligation, and is considered good business if the applicant stands well morally and financially.

Form No. 80—Distillers Monthly Warehousing.—Every distiller, having a distillery warehouse, except as covered fully under Form No. 359, is required to file a Monthly Warehousing Bond by the sixth of each month, guaranteeing the tax on the spirits distilled in the month preceding. The tax at present is fixed at \$1.10 per gallon. The penalty of the bond, therefore, is fixed by the Internal Revenue Department by multiplying the gallons distilled by \$1.10.

The liability of this bond is in force until the tax is paid and, therefore, can be effective for several years, depending on the time that the spirits remain in the bonded warehouse. This time is limited by law to eight years from the date of the entry of the spirits for deposit.

Form No. 111—Tobacco Peddler.—Every peddler of tobacco before commencing, or if he has already commenced before continuing, to peddle tobacco, must furnish to the Collector of his district an approved bond in the sum of \$500. This is conditioned on the fact that the peddler will not engage in any attempt, by himself or by collusion with others, to defraud the Government of any tax on tobacco, snuff or cigars; that he will neither sell nor offer for sale any tobacco, snuff or cigars not in the original and full packages (which is required by law) and only in such packages as bear the manufacturer's label or caution notice, his legal marks and brands, together with genuine internal revenue stamps which have never before been used. In case of a firm each member must give bond.

As many manufacturers of tobacco products have traveling salesmen who come under this ruling, it is well for the agents to get in touch with such manufacturers.

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Form No. 214—Oleomargarine Manufacturers.—Every manufacturer of oleomargarine before commencing business is required to file with the Collector of the district in which his factory is located a bond in an amount to be fixed by the collector of not less than \$5,000. This is a continuing form and the bond is conditioned upon a compliance with the laws and regulations relating to the general subject.

Form No. 220.—Exporters of Oleomargarine, etc.—This form of bond is used by exporters of all articles (other than distilled spirits and fermented liquors) withdrawn free of tax or with allowance of drawback under the Internal Revenue laws. It is applicable to oleomargarine and adulterated butter, which may be withdrawn free of tax for export to a foreign country. Credit is allowed thereon upon presentation of evidence of the landing abroad of the goods. The penal sum of this obligation must be double the amount of estimated tax which will at any time constitute a charge against such bond.

Other Export Bonds.—In addition to the bond immediately preceding, other Export Bonds are required, the conditions of which are similar to and the penalties on the same determined in the same manner as those for Export of Oleomargarine Free of Tax. They are as follows:—

a—*Form “B”*—For direct export of distilled spirits.

b—*Form “BB”*—For transportation for export of distilled spirits.

c—*Form “A No. 263”*—For export of fermented liquors.

d—*Form “A No. 549”*—For removal for export of all articles other than distilled spirits and fermented liquors, including tobacco, snuff, cigars, mixed flour, playing cards, etc.

Form No. 235—Transportation and Warehouse for Fruit Brandy to be deposited in Special Bonded Warehouse.—This bond is similar to No. 351 mentioned below, except that it applies to fruit brandy.

Form No. 256—Winemaker’s Bond.—This bond is a transportation as well as a winemaker’s bond, and is conditioned

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for the safe transportation of the brandy from the place of production or deposit to the winery where it is to be used, as well as for the use of such brandy in the fortification of legitimate wines (as defined by Internal Revenue regulations). The bond also covers the payment of all fines imposed and penalties incurred and, in addition, payment of the charge of three cents for each tax gallon of brandy used in the fortification of sweet wines.

This obligation must be given by any producer of pure sweet wines, who desires to fortify the same either with grape brandy produced by himself or with grape brandy deposited in any special bonded warehouse free of tax.

The penalty of the bond will be sufficiently large to cover the amount of the Internal Revenue tax on the brandy chargeable to the bond during any one month, and for not less than \$500 nor more than \$100,000.

Form No. 263—Export for Fermented Liquor.—Bonds of this class are required to be given by brewers exporting fermented liquor free of tax, and in a penal sum of not less than double the tax on the estimated quantity of liquor to be removed for export during a period of three months; in no case is the penalty less than \$1,000. These bonds remain in force until they are renewed or are otherwise cancelled.

Form No. 269—Smoking Opium Manufacturer.—Every manufacturer of opium for smoking purposes is required to file bond, at the time he applies for a license to conduct this business, in the Internal Revenue Department, which guarantees that he will comply with all requirements as to the manufacture of this article. The penalty of these bonds is fixed by the department. They are practically obsolete, as the manufacture of this article is now prohibited by law.

Form No. 351—Transportation from Warehouse to General Bonded Warehouse.—This bond is required of all distillers intending to transfer spirits to a general bonded warehouse. The penalty is fixed by the department on the basis of \$1.10 multiplied by the estimated number of gallons to be trans-

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ported from the distiller's warehouse to the general bonded warehouse during the fiscal year for which the bond is given.

The form is conditioned for the safe transportation of the spirits to, and their storage in, the designated warehouse, and also for the payment of tax on the spirits before their removal from such storage and within eight years from the date of original entry in the distillery warehouse.

From No. 359—Distillers' Annual Warehousing.—For the convenience of distillers, so that they will not have to file Monthly Warehousing Bonds (Form No. 80), they can file Bond Form No. 359, which guarantees that they will pay the tax on spirits deposited in their warehouses during the time for which the bond is given. The penalty of these bonds is fixed by the Internal Revenue Department on the estimated quantity of spirits to be deposited during the year, and at the rate of \$1.10 per gallon.

The spirits distilled each month are charged to the Annual Warehousing Bond (Form No. 359), and, if the number of gallons distilled during the year and remaining in the warehouse multiplied by \$1.10 exceeds the penalty of the annual bond, the distiller is required to file an additional warehousing bond or a Monthly Warehousing Bond (Form No. 80) for such excessive spirits.

Form No. 387—Filled Cheese Manufacturer.—Every manufacturer of filled cheese is required to file a bond in penal sum of not less than \$5,000 with the Collector of the district in which his factory is located, guaranteeing the compliance with the laws and regulations of the Internal Revenue Department. The same is filed before the manufacturer commences business. It expires on the last day of June and must be renewed annually.

Form No. 432—Bond for Withdrawal of Alcohol Free of Tax for Scientific Purposes.—Under the U. S. laws alcohol, when used strictly for scientific purposes by scientific or educational institutions, can be withdrawn from the ware-

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houses free of tax. When such is done Bond No. 432 is given. This guarantees that the alcohol will only be used in the manner allowed. The obligation in such cases must be given in a penal sum at least double the tax on the alcohol to be so withdrawn, and can in no case be less than \$200.

Form No. 506—Manufacturer of Adulterated Butter.—Each manufacturer of adulterated butter is required to give bond at the time he begins operations. The same is continuous in form, and the penalty is fixed by the collector of the district in which the factory is located, being in no case less than \$500. Compliance with the requirements of the department in question is guaranteed by this instrument.

Form No. 508—Bond for the Manufacture of Renovated Butter.—This bond is similar in form to No. 506 except that it applies specifically to the manufacture of renovated butter.

Denatured Alcohol.—A number of bonds are required to be given under recent Acts of Congress concerning denatured alcohol, central denaturing bonded warehouses, and industrial distilleries. For full information on these topics refer to Regulations No. 30 Revised U. S. Internal Revenue Department.

2—CUSTOM BONDS.

The principal bonds of this class are:

Form No. 456—Manufacturer's Bond—Transfer.—It frequently happens that manufacturers, who have dutiable goods in one custom warehouse, desire to transport the goods into another bonded manufacturing warehouse. In such cases they are required to give this form of bond. It is given in double the value of the merchandise to be transported.

Form No. 462—Manufacturer's Bond.—This is a bond conditioned that materials transferred into a bonded manufacturer's warehouse shall be used in manufactures on the premises, and that articles made therefrom shall be exported from the United States. The principal must comply with all the requirements of the Customs laws and the Treasury regu-

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lations in respect to the custody, use and accounting for the materials or the manufactured product.

Form No. 467—Direct Export Bond—(Bonded Manufacturer's Warehouse).—Under the Tariff Act no manufactured goods can be entered for consumption, unless a bond be given in double the amount of the duty. This instrument guarantees that the goods will be landed in a foreign port, and certificate produced to that effect.

If the value of the goods to be exported is less than \$100, the production of the bill of lading showing shipment is sufficient.

Form No. 469—Bond for the Transportation and Export of Manufactured Tobacco.—This bond is given for double the amount of the tax and duty on the tobacco, the guarantee being the same as in Bond No. 467.

Form No. 472—Bond in Case of Vessel Proceeding with Cargo Destined for a Foreign Port.—This bond is required of a vessel proceeding with cargo destined for a foreign port and guarantees that the cargo will be landed at destination, and a certificate produced to that effect. It is, therefore, somewhat similar to Bond No. 467.

Form No. 474—Bond of Master for Due Entry of Residue of Cargo in Other Districts.—This is a bond which guarantees that, on landing the residue of a cargo, a certificate will be produced and delivered to the Collector of Customs at the first point of landing.

Form No. 503—Bond of Indemnity upon Obtaining Permit to Land Goods at Night.—This bond is known by Custom House officials as a "Night Bond," and guarantees that duty will be paid on any goods landed at night even though such goods should become lost.

It is given in order to enable vessels to unload after sun-down, and is, therefore, of frequent occurrence. The bond runs to the Collector.

Form No. 582—Bond When Triplicate Invoice is Wanting.—The regulations of the Government require that any goods

exported from foreign ports (imported) should all have attached to the bill a certificate from the American Consul at such port. This certificate is known as a Triplicate Invoice or Verified Invoice. The bond guarantees that such certificate will be produced within a required period, and is given when the certificate is not properly attached upon the delivery of the goods by the Custom House officials.

Form No. 583—Bond to Produce Verified Invoice.—This obligation is conditioned for its production, within six months from date, of a duly authenticated invoice of the goods, and guarantees that the obligor will pay the Collector the amount of duty due, as per such invoice, over and above the duties estimated on appraisement.

Form No. 589—Bond of Importer, Consignee or Agent, to Produce Declaration of Owner to Invoice and Entry.—It frequently happens that instead of a certificate of the American Consul, as is the case in Bond No. 582, a certificate showing the declaration of the owner as to the invoice and entry must be produced. When such is the case, the Bond No. 589 is used.

Form No. 590—Bond of Importer on Delivery to Him of Packages not Designated for Examination.—It often happens that an importer desires to take goods from the Custom House before the appraiser has made his report. In such cases the Government allows the goods to be removed, provided a bond is given for double their value, and guaranteeing that the importer will return the goods if called for by the Government within ten days. (Bond 591-e is a similar bond.)

Form No. 591—Bond for Six Months for Delivery of Unexamined Packages.—This bond is the same as No. 590, except that the time for returning the goods to the Government is six months. (This bond is similar to 591-f.)

Form No. 591-e—Bond for Delivery of Unexamined Packages.—This bond is conditioned for return within ten days of packages deliver to an importer. If this is not done the

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obligor must pay the full invoice value and duty on packages not returned. (This bond is very similar to Form No. 590.)

Form No. 591-f—Bond for Delivery of Unexamined Packages.—The conditions under this bond are similar to those under Bond Form 591-c, except that it covers all such transactions for a period of six months. (This bond is very similar to No. 591.)

Form No. 596—Bond to Produce Certificate of Exportation of American Products.—It frequently happens that American goods which have been exported are returned to this country without a certificate showing that they are exported goods. When such is the case, and it is desired to remove the goods from the Custom House, a bond is required in double the amount of the duty on the goods, if such goods are dutiable. This guarantees that a certificate of export, showing that the goods were actually American products, will be given to the Custom House officials.

Form No. 605—Bond for Exportation of Adulterated Drugs.—It is against the laws of the United States to manufacture within certain limits adulterated drugs, and when such goods are manufactured to be exported, a bond under the above form is required with the condition that the adulterated drugs will be landed outside of the United States.

Form No. 682—Bond of Claimant of Seized Goods for Costs of Court.—Where goods are seized by the Custom Officials the claimant may intervene in the forfeiture proceedings upon furnishing a bond for \$250 to cover costs, and conditioned that obligor shall pay to the United States all costs and expenses of condemnation proceedings.

Form No. 704—Warehousing Bond.—When it is desirous of leaving goods in the Custom House, the Government requires a bond in double the amount of the duty on such goods. The bond guarantees to make good the difference between the amount for which the goods are sold and the amount of the duty.

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Form No. 725—Bond on Withdrawal of Salt for Curing Fish.—When it is desirous of using imported salt for the curing of fish, the Government will allow such salt to be withdrawn free of duty, provided a bond is filed guaranteeing that the salt so withdrawn will be used for this purpose.

Form No. 739—Transportation Bond.—When a merchant desires to transfer merchandise from a custom warehouse in one district to a custom warehouse in another district, he is obliged to give a bond guaranteeing the goods during transit and that the goods will be rewarehoused in the other district.

Form No. 747—Bond for Re-delivery of Articles Imported Under Sections 2505, 2511, 2512 and 3021.—There are some classes of merchandise and articles, which can be imported into this country and shown or used without duty, provided a bond is given guaranteeing that the goods will be exported within six months from the date of their importation.

Form No. 747½—Bond for Exhibition of Works of Art (Under Paragraph 702, Act of July 24, 1897.)—The guarantee in this bond is the same as in No. 747, except that it can be extended six months upon application to the Secretary of the Treasury.

Form No. 747¾—Bond for Importation of Animals for Exhibition.—Same as No. 747½.

Form No. 764—Export Bond.—This bond is given in double the amount of the duty, and guarantees that the goods covered by the bond will be landed in a foreign port and a certificate produced to that effect.

Form No. 772—Bond for Exportation of Repaired or Re-manufactured Railroad Iron.—This bond guarantees that the material bonded will be re-exported within six months from the date of entry at the port of importation, or duties paid.

Form No. 781—Bond for Exportation of Domestic Spirits.—This bond is double the amount of the tax on spirits, and guarantees that a certificate of the goods having been landed in a foreign port will be produced.

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Form No. 788—Bond on Export of Imported Merchandise with Benefit of Drawback.—Upon the exportation of imported merchandise shipped with benefit of a drawback, a bond is given to produce the landing certificate showing the delivery of the merchandise outside the limits of the United States.

Form No. 790—Bond for Export of Manufactured Articles with Benefit of Drawback.—This bond is the same as No. 788, except that it is drawn to cover imported materials which are to be manufactured and then exported.

Form No. 803—Bond for Exportation of Distilled Spirits—Form VIII Internal Revenue.—This bond is given in double the amount of the tax on the spirits and guarantees that a certificate will be produced showing that the goods have been landed in a foreign country.

Form No. 809—Bond for Custom House Draymen and Lightermen.—Whenever it is necessary to move goods from a vessel to the Custom Warehouse, the Government requires a bond guaranteeing that the transfer of the goods will be safely accomplished.

Form No. 811—Bond on Withdrawal of Supplies for a Vessel Clearing Coastwise.—When it is necessary for vessels trading coastwise to withdraw supplies, and production of proof is required by Custom House regulations that such withdrawal is necessary, the above bond is given.

Form No. 820—Bond for Storage of Imported Teas.—As the Government has no regular warehouses for the storing of teas, and it frequently is desirable to keep them in private warehouses, this bond is given. It guarantees the safeholding of such teas in the warehouse until released.

Form No. 821—Bond for Examination of Imported Teas.—This bond is for one-fourth of the value of the tea, and guarantees that the tea, when placed in private warehouses, will be examined. Tea is free of duty.

Form No. 823—Bond for the Exportation of Impure and Unwholesome Tea.—This bond is conditioned for exportation of impure and unwholesome tea within six months from date

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of final examination or re-examination of the same and the production of evidence showing the landing abroad of the merchandise.

Form No. 787—Bond of Common Carrier for Immediate Transportation of Dutiable Merchandise.—In order to facilitate the moving of imported merchandise, it is the custom of common carriers to make a contract with the Government that they will, during transit, treat the goods in such a manner as to keep them practically warehoused during transportation. They are required, therefore, to give bond of \$100,000 guaranteeing that they will safely and properly hold the goods so delivered to them during transit.

BOND FORMS.

1—INTERNAL REVENUE BONDS.

Internal Revenue Bonds must always be issued on forms provided by the Government. These can be secured from any local Internal Revenue Office. As each form is numbered, the numbers should be noted carefully and mentioned whenever any reference is made to bonds of this kind.

As individuals, firms and corporations, who find it necessary to give bonds to the Government in Internal Revenue matters, usually require a number of bonds during the year, it is customary for surety companies to make annual contracts to write all of the bonds of this nature which the same principal may require.

2—CUSTOMS BONDS.

The manner of filing bonds in the Custom House differs from that pursued in connection with Internal Revenue Bonds, in that they must be executed by the agent in what is known as the "Bond Book." The agents of surety companies, therefore, are required to visit the Custom House in order to execute the bonds. As a copy will not be furnished, care should be taken to note the Government Form number, in order to designate the exact bond signed.

Desirability of Custom House Broker.—As a certain amount of technical knowledge is necessary in order to properly conduct business with the Custom House, it is convenient quite frequently to deal through Custom House brokers, who often represent the principal in furnishing bonds. Therefore, agents and solicitors should get in touch with the various Custom House brokers and endeavor to make an arrangement for furnishing the bonds needed by their clients.

SUGGESTIONS IN REGARD TO THIS BUSINESS.

Statistics show that a great many Custom and Internal Revenue Bonds are still filed with personal sureties, for the reason, principally, that the agents of surety companies have not, generally speaking, familiarized themselves with these bonds so as to be able to solicit them properly. By noting, however, the character of forms which are apt to be called into use for bonds coming under these two classes, and by making the acquaintance of the Customs and Internal Revenue officials in his territory, in addition to securing information as to how to get in touch with the people who file bonds in these departments, the agent can secure considerable business in the lines treated in this chapter.

CHAPTER XII.

BONDS GIVEN FOR MUNICIPAL OR EXCISE LICENSES IN COMPLIANCE WITH LOCAL LAWS.

Bonds covering the above contingencies differ from the usual fidelity and contract obligations. In the latter risks there are certain duties, either expressed or implied, put upon the employer or obligee, which must be performed by him, in order that the surety may be held responsible; while in the bonds referred to in this, as well as in several other chapters, no such duty is imposed. For this reason these instruments more properly partake of the nature of indemnity obligations rather than surety bonds.

For example, in fidelity and contract propositions, the liability of the surety is predicated upon the contract. Thus, in a Fidelity Bond the employer agrees, among other things, to make an examination of the employee's accounts at stated intervals, to give immediate notice of any default to the surety, to swear out a warrant for the arrest of the employee, if required, etc. Furthermore, in contract obligations we have seen that the contract and specifications are made a part of the bond, and that whatever duties are imposed upon the owner in favor of the contractor, likewise inure to the benefit of the surety, while a violation of them vitiates the bond. Therefore, when a contractor has severed his obligation by completing a contract according to his plans and specifications, the surety's liability is at an end. Likewise in the fidelity class, when the surety is satisfied as to its indebtedness to the assured by reason of any default or miscarriage on the part of the principal, and pays the same, the liability terminates. In a Miscellaenous or Indemnity

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Bond, however, the surety guarantees not only the affirmative and negative features of a written or implied contract, but also immunity to the obligee from any loss, cost or expense of any nature, which might be sustained by reason of the principal's doing or failing to do some particularly specified thing. The bonds here treated are given to protect states and cities against loss occasioned by a non-compliance with the provisions of various statutes by persons transacting certain classes of business.

While the bonds treated under this heading are broad in their scope, they are not for that reason additionally hazardous. On the contrary, with comparatively few exceptions, they are considered desirable business.

In view of the fact that the risk under these bonds depends upon the local laws under which they are required, such legal regulations should be looked into carefully in order to determine the risk assumed in each particular community. The regulations governing a certain class of business might be materially different in one locality from another. This applies particularly to obligations for municipal franchises and licenses, and also for excise licenses. The latter class is, as a general rule, very hazardous.

These obligations are furnished in compliance with the local laws, and are either statutory in form, or are drawn subject to the approval of a City Solicitor, Attorney-General, or some other duly appointed legal adviser.

CLASSIFICATION OF BONDS.

1—PAWN BROKERS.

Bonds are required to be given in many states by pawn brokers. They are to guarantee the faithful compliance with the laws regulating this class of business. In some states the statute goes so far as to specify a form in which the applicant is required to keep his books. In many others the laws relating to this business are more or

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less interwoven with the police regulations. These should be investigated when considering risks of this nature.

2—EMPLOYMENT AGENTS.

When it became the practice of most employment agents to exact a fee from persons desiring employment, it was deemed advisable in various states and cities to pass laws requiring them to take out licenses and give bond guaranteeing that their agencies would be conducted according to law. This was a result of the desire to protect ignorant or illiterate applicants; seeking employment, from imposition in any way. These bonds, as a rule, are undesirable.

3—AUCTIONEERS.

Auctioneers in many states are required to secure licenses and furnish a bond guaranteeing that their business will be transacted according to law.

4—NURSERYMEN.

Nurserymen are frequently required to give a bond that guarantees a compliance with the laws and regulations referring to the selling of trees. Under these laws they are subject to the supervision of the State Entomologist, among whose duties it is to see that no diseased trees are bought and sold.

5—PLUMBERS.

In many cities plumbers must furnish bond guaranteeing that they will comply with the law requiring their work to be done according to proper sanitary rules and regulations, in order to protect the city from loss by reason of damage suits arising from accidents, or from damage caused to property by deficient workmanship.

6—DRAIN LAYERS.

Owing to the fact that drain layers in many cases have to remove and tear up pavements and streets (which they

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are required to replace) and frequently to tap public sewers, they are often required to furnish a bond to the city, which guarantees that they will properly comply with the law applicable to their business.

7—MOVING BUILDINGS.

In many municipalities, it is necessary for a mover of houses to furnish bond to protect the city against any damage of any character occasioned by the moving of a building. These bonds should only be written for applicants of experience and financial responsibility.

8—WAREHOUSE BONDS.

These obligations must not be confused with the warehouse bonds given to comply with the laws of the Internal Revenue Department, as we have seen that bonds of that class are furnished by distillers or warehousemen handling liquors. It frequently occurs, however, that owing to certain state laws, rules and regulations of boards of trade, etc., a public warehouseman, storing commodities other than liquor, is asked to give bond. These bonds in some states are considered good risks, but in others they are extremely hazardous. Therefore, care should be taken to see that the laws for the compliance with which the bond is given are not such as to guarantee warehouse receipts. The applicant's financial standing and general business reputation should be seriously considered in determining as to the advisability of these risks.

9—USING EXPLOSIVES.

In many states the user of explosives is required to secure a license and to give a bond guaranteeing protection to the city against any loss or damage that may arise from their use. As can be seen, this business is in most cases extremely hazardous, and should be written only for an applicant of great experience and unquestioned financial responsibility.

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10—ELECTRICIANS.

It is the practice in most cities to require electricians to secure a license, and give a bond guaranteeing that their work will be done according to the laws applicable to this particular kind of business. This has become necessary owing to the frequent fires caused by incompetent, inefficient or inexperienced workmen.

11—STREET OBSTRUCTIONS.

It is the practice in many municipalities to require a building contractor, or others desiring to obstruct a street, to secure a permit or license, and give bond guaranteeing that such street will be repaired if damaged by the contemplated work. This bond sometimes operates to protect the city by reason of damage to persons or property.

12—DRAYMEN.

In most cities it is customary to license all teams and drays, and in many places bond must be given guaranteeing that the law in reference to this particular business will be observed, and indemnifying the city from loss in case of suit under certain contingencies.

13—SIGN LICENSE.

In many municipalities there are certain laws and regulations pertaining to signs, and in some instances a license is required before a sign can be displayed or hung, together with a bond holding the city harmless from any injury that may arise out of the improper placing of the same.

14—HOISTING.

It is necessary in some places to secure a license for hoisting, and bond is required holding the city harmless for any damage that may come from the granting of a license.

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15—TICKET BROKER.

In order to prevent the selling of bogus tickets, it is the practice in many cities to require all ticket brokers to furnish bond protecting the public against loss. These bonds are undesirable, except for well established and financially strong brokers.

16—OPENING STREETS.

In accordance with the laws in many municipalities, any individual or corporation making sewer connections, and desiring to open or tear up a street, is required to give a bond guaranteeing the relaying of the street in a proper manner, and also holding the city harmless against any loss in consequence of such permission having been granted. In considering these propositions, the financial responsibility and general reputation of the contractor should be given careful consideration.

17—STATIONARY ENGINEERS.

It is the practice in many cities and states to require all engineers of stationary engines to secure a license. Usually they are required to pass an examination as to their efficiency, and must in addition give bond guaranteeing the faithful performance of their duties as far as the interests of the city are concerned. These bonds are considered desirable in those places where the law is not too rigid. A list of the persons requiring bonds under this class can usually be obtained from the examining boards, who will readily furnish copies of the local ordinances, state laws, etc., covering this position.

18—BOILER.

Same as "Stationary Engineers."

19—THEATRE.

In many cities the theatres or places of amusement are required to secure a license either from the Police Board, or some similar body. They must in addition furnish a bond

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guaranteeing compliance with the local laws and ordinances referring to this particular line of business.

20—SCALE.

In many cities any one who desires to operate a public scale is required to secure a permit or license, and before such license is granted, a bond must be filed guaranteeing the correctness and honesty of the weights specified in the certificates issued by the operator.

21—BASEMENT STAIRWAY.

Under this heading are included those licenses granted by various municipalities giving permission to property owners to erect a basement stairway or a cellar under the sidewalk. A bond is frequently required guaranteeing that the owner will hold the city harmless from any suit for personal injury or property damaged.

22—GUARANTEEING FRANCHISES TO PUBLIC BODIES.

(See Miscellaneous Contract Bonds, chap. V.)

23—BILL BOARD.

It is customary in many municipalities to exact of any one erecting a bill board a bond to hold the city harmless in case of any loss or damage arising from the construction of the same. The liability under this particular risk is practically the same as under a Sign License Bond.

24—EXCISE.

These bonds are on the prohibited list of most surety companies. The danger lies in the fact that they are given to guarantee the faithful compliance with liquor laws, which in most states are extremely rigid. Furthermore, the bond forms and practices in some states are such as to make these obligations practically a forfeiture bond. In some

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states, the bond is liable not only for the fines levied for the breaking of the law, but also for any personal injury that may be done to any one, where such injury is traceable to excessive drinking.

As a rule, the laws governing the traffic of liquor are very strict, and the question of the enforcement of them, owing to local agitation or any other similar reason, makes this class of business extremely undesirable. Furthermore, the people who will want a bond of this nature are generally of a class having very little financial worth, and this of itself makes surety companies very loath to assume these obligations.

CHAPTER XIII.

BONDS GUARANTEEING THE SOLVENCY OF DEPOSITORIES.

There is no class of bonds issued by surety companies as much discussed as those guaranteeing the solvency of banks (national and state institutions), and trust companies. The feasibility of this practice was a plank in one of the political platforms during the Presidential campaign of 1908, and the general scheme was then discussed thoroughly in many states, and adopted, in some few instances. During this period a careful computation was made of the losses sustained by surety companies on depository bonds as compared with premiums received, and as a result it was proved that, though there are periods in which surety companies are remarkably free from danger, in times of great financial depression they are subject to severe loss. (This fact has made it necessary to rearrange the rates formerly charged.)

This business when properly underwritten is acceptable to most companies. It may be stated, however, that the amount of liability assumed at the present time under a depository bond for any banking institution, however strong, is very much smaller than in previous years. When, therefore, it becomes necessary for any one surety company to accept a large obligation (which happens when the law requires a single surety to assume the entire risk), it is the general practice to reinsure a portion of such risk, as one of the greatest dangers in writing this particular class of business arises from having an "over-loaded line."

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CLASSIFICATION OF THESE BONDS.

1—PROMPT PAYMENT CLASS.

These bonds guarantee that the surety will promptly pay to the assured the amount of money due upon the failure of the banking institution. They include bonds running to the U. S. Government, states, counties and municipalities.

2—DEFERRED PAYMENT CLASS.

These bonds guarantee to pay to the assured the eventual loss, which is deferred until the final liquidation of the defunct institution. They are usually issued to individuals, corporations and associations.

The policy of accepting these two classes, viewed from an underwriting standpoint, is vastly different, even though the eventful net loss to the surety under each is the same. Without taking into consideration any other phase of the question, two things must be considered in the execution of depository bonds.

First, whether the total premiums obtained will be enough to pay the eventual losses.

Second, the expediency, from a company's financial viewpoint, of assuming risks involving the prompt payment of large sums of money.

The former point will be fully determined by statistics, while the latter will depend upon the company's available surplus, the character and condition of its investments, and upon the other obligations which it has assumed under other classes of bonds.

1—THE PROMPT PAYMENT BOND.*

The Prompt Payment Bond, in which the surety agrees to pay the loss immediately, is the form required by the Federal Government, states, counties and municipalities. These are usually in large amounts, and when

* See Appendix, page 228.

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a loss occurs under them, the surety having a large percentage of its assets in securities may find that it is obliged to sell same at a very low price, for the reason that a loss seldom occurs on these bonds except in times of great financial depression when all securities are reduced in market value. The loss, therefore, on the sale of these securities adds quite a percentage to the actual loss under the bond. This particular feature, or added loss to the company, is not generally understood by the agents and solicitors, and has not been given enough consideration in the past when soliciting these bonds; but the history of any period of financial depression will bring this fact forcibly to the attention of underwriters.

Some idea may be formed of the risk assumed under Depository Bonds by looking at the statistics of national banks operating for the first thirty-six years under the National Banking laws of the United States. During the period from 1864 to 1900, wherein there were numerous panics, statistics show that 18% of all the national banks were placed in liquidation, and that 5% of all such banks caused loss to their depositors. These figures apply only to national banks, and unfortunately no satisfactory data, for the same period, can be gathered regarding state banks and trust companies. It is a known fact, however, that, as the examinations of the latter institutions are less rigid, and the laws governing investments and reserves considerably more lax than those with which national banks must comply, their failures are more frequent. Furthermore, the salvage that can be collected from state institutions is very much less than in the case of depositories operating under Federal laws. Therefore, from an underwriting viewpoint, national banks, as a whole, are better risks to assume than state banks and trust companies, and surety companies should receive a larger premium and accept a smaller liability for the latter.

Another point to remember is that each Depository Bond of the prompt payment class is, in event of the failure of

the institution, the guarantee or endorsement for the prompt payment of money. Prompt Payment Depository Bonds, therefore, should be classified with those bonds known and recognized by surety companies as "financial guarantees," such as, Appeal Bonds, Attachment Bonds, etc. (see chapter VII), in executing which it is the practice of all companies to exact collateral for protection.

As can be well understood, the proposition of exacting collateral from a bank to protect its surety on a Depository Bond will not be cordially received, but as the self-same institutions are accustomed to demand collateral from their clients to whom they lend money, there is no reason why they should not be willing to furnish collateral to the surety signing a bond.

When taking collateral for the protection of the surety in the execution of Depository Bonds, extreme care should be exercised to see that it is so hypothecated as to prevent legal complications in case the surety desires to dispose of it in event of loss. This can be done by a careful scrutiny of the bank's charter and the laws of the state in which the institution is situated. This will show whether the bank can legally pledge its securities for such an obligation.

The advisability of writing large single risks, which call for the prompt payment of money needs little discussion. It is obviously unwise for a surety carrying a large line of other obligations (which of course implies a possible demand upon the surety), to execute Depository Bonds in large amounts on any one institution, or a chain of banks, or even to write a large number of Depository Bonds in any one locality, where the failure of one bank might cause the suspension of others in the same section. The argument brought to bear to offset this is, that the salvage collected from defunct banks is as a whole very much larger than the salvage collected from other surety losses. While this may be true, the collection of such salvage is usually delayed from one to five years, and in the meanwhile the company may be seriously

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hampered by having been obliged to pay the money promptly at a time of great financial depression.

One of the chief objections to the writing of Prompt Payment Bonds is that they are usually statutory in form, and contain many undesirable features besides that requiring the immediate outlay of money. For instance, in the statutory form there is seldom a cancellation clause, which means that when a bond is once issued, there is no possible way for the surety to be relieved of the obligation, even though it should ascertain that the bank is not properly managed; so that the company must stand liable up to the face of the bond as long as the money so guaranteed is left with the bonded institution. This frequently works a great hardship to the surety, and many companies will not execute any form of depository bond, unless it contains either a cancellation clause or states a definite term of liability.

It is also true that many of the statutory forms of bonds have no coinsurance clause, the absence of which, under certain contingencies, makes the surety liable for an amount considerably in excess of its proportion of the amount on deposit, on account of the failure of the assured to have other bonds of sufficient size or through the insolvency of a coinsuring company.

In view of these objectionable features, it is suggested that all agents and solicitors agitate the question, as far as they are able, among the officials of their various states and cities, with a view towards securing a modification of the laws in such a way as to enable those passing upon the bonds to accept a form eliminating these objectionable features.

It would also be well, when soliciting large bonds, to see if it can be arranged with the official of the state, county, or municipality, to accept separate bonds from a number of sureties in such amounts as they are willing to assume, the sum total of which bonds should equal the total amount required. When executing these separate obligations, however, each bond should contain a Coinsurance Clause, i. e.,

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a clause stating that the surety will pay only such percentage of the loss as the penalty of its bond bears to the amount of insurance carried.

2—DEFERRED PAYMENT BONDS.*

These bonds are really written on an insurance, or eventual loss, and not on a credit or banking basis. Though it is true that they are not issued as frequently as Prompt Payment Bonds, they are considered more desirable risks, and companies will assume larger amounts under them than under the former obligations.

The Deferred Payment Bonds will frequently be satisfactory to trustees, beneficial orders, corporations and individuals, or to those institutions not requiring the statutory form of bond. As above explained, the eventual loss of the surety thereunder is the same as in the Prompt Payment Bond, but as the surety is not called upon to pay the assured until after the final liquidation of the defunct institution (which is usually after the time of financial stringency), it can be readily understood that not only can a larger liability be carried, but also that such bonds can be executed at a less rate of premium.

INFORMATION REQUIRED IN WRITING THESE BONDS.

The information required by the surety before the execution of any Depository Bond is that furnished by the last detailed official financial statement of the depository; how the loans of the institution are divided (i. e., the amount on real estate, commercial paper, time loans on stocks and bonds, call loans on stocks and bonds, especially the loans to officers and directors, and the amounts for which they are endorsers); whether the officials and directors of the institution are men of large means; whether they are connected with large mercantile concerns; and, if possible, any data that can

* See Appendix, page 228.

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be secured as to the financial strength of the larger stockholders of the bank, especially in those states where the stockholders of state banks and trust companies have a "statutory" or "double liability" for the amount of their stockholdings, as is the case with national banks. As before stated, the form of bond required should be carefully examined.

Experience has shown that where the connections of a bank are in any way political, a thorough investigation should be made of such relations, and how they are used to influence the deposits which the bonds are to guarantee. Where such relations exist, it should be seen that the deposits are made on account of the financial strength of the institution rather than through political influence.

It may be well to state that, owing to the interchange of reinsurance among the companies for this line of business, practically no agent should be authorized to execute these bonds without specific instructions from his home office; for by so doing he might assume a greater liability than his company would care to carry, especially if it may already, through reinsurance, have taken certain liability unknown to the agent.

APPENDIX.

APPENDIX.

JOINT CONTROL AND CONVERTIBLE COLLATERAL.

Joint Control accounts arise principally in the execution of Judicial Bonds, although it is sometimes necessary for the surety to secure joint control of funds for its protection in assuming risks of some other character. The term "joint control" as used by surety companies may be explained as the deposit of the funds of an estate, or trust, to the joint control of the fiduciary, in his official capacity, and the surety by its agent.

The necessity of securing Joint Control is a feature of underwriting not generally understood by agents and solicitors, although it is invariably the practice of surety companies to exact this requirement in executing bonds covering "long term" trusts.

Statistics show that losses on these risks have been heavy, and the best method of checking them is to have the funds of an estate, or trust, so protected, through the agent of the surety, as to remove any chance of loss either by defalcation on the part of the fiduciary or by mismanagement of the estate or trust in violation of law.

Aside from the purely protective feature of Joint Control to the company, it has another reason for existing which is greatly to the benefit of an agent. It is the universal practice among surety companies not to assume larger liability on any one risk than 10% of its capital and surplus except in certain cases of Warehouse, Transportation and Internal Revenue Bonds. However, if a company can protect itself and reduce its risks by making a proper arrangement for the joint control of accounts with the fiduciary, it greatly diminishes its liability, and consequently the surety

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would feel justified in assuming very much larger risks than it would without Joint Control. The agent may also solicit such risks without being hampered by the policy of his company not to assume more than 10% of its capital and surplus on any one risk.

For the convenience of their agents, surety companies furnish Joint Control Registers to facilitate correct and readily understood keeping of accounts of the Joint Control trusts which their agents handle. In keeping such accounts, care should be taken to see that not only a proper description of the bond is made, but also that the name of the institution in which the funds are to be deposited and the name of the person with whom the agent acts in the joint control of the estate are given. Proper notation should be made fully describing the estate with a detailed account of the funds coming into the hands of the fiduciary, so that all receipts and disbursements can be promptly and properly entered, and the total amount of the receipts of the estate at all times quickly determined. All disbursements should be charged promptly and properly, so that the exact balance of the funds, in the possession of the fiduciary, can be ascertained at a glance. No payments should be made in the Joint Control account except such funds as are allowed by the laws of the state to be paid out of such trusts upon the specific authority and order of court. The funds of the estate should be so deposited in bank that they can only be drawn upon presentation of the check of the fiduciary properly counter-signed by the agent of the surety company. If they are placed in a safe deposit vault, it should be so arranged that access may only be had in the presence of both the fiduciary and the agent of the surety.

For his own protection, as well as that of the surety, an agent, when counter-signing checks for Joint Control accounts, should sign his name as agent of ——— Surety Company, and when safe deposit boxes are rented, entry should be

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made on the books of the safe deposit company in the name of the agent, as agent, and not in his individual capacity.

Inquiry will often be made of an agent for a statement as to the balance on hand of the various Joint Control accounts as handled by him, as these accounts should be verified, from time to time, by the court officials and representatives of surety companies.

COLLATERAL REQUIRED BY COMPANY.

For its very necessary protection, a surety company frequently exacts collateral before the execution of so-called "financial guarantee" bonds. The policy of securing collateral must not be confused with the desire of a company to obtain joint control on all long term trusts. In the former case, of "financial guarantee" bonds, the surety desires full and absolute control of the collateral, while in the latter instance, Joint Control Bonds, it simply desires to be in a position to approve all disbursements, and to know that they are made in such a manner as will save it from loss.

The method of handling convertible collateral, received as indemnity, varies considerably among different companies. As a general thing, however, all companies desire such collateral to be forwarded promptly to the home office by registered mail at the time the application is sent, in order that a proper record can be made and the collateral deposited in the company's safe deposit vaults, where it may readily be inspected not only by the executives of the company, but also by the various examiners of the state Insurance Departments and the United States Government. When it becomes absolutely necessary, or is the policy of a company to allow convertible collateral to remain in the custody of an agent, he should, for his own protection, see that an arrangement is made, when securing a safe deposit box, that such box can only be opened in the presence of the trust officer of the institution in which the security is deposited. Possibly the trust officer may not care to accept responsibility for the

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justification of returning any collateral so deposited, but he will undertake to keep a proper record of the same for the advice of the home office.

It is hardly necessary to say that in the Joint Control accounts, other than those of a fiduciary nature, collateral or money held as indemnity should not be returned to the owner without receiving specific authority from the home office for such disposal, unless the surety has received sufficient legal evidence that its liability under the particular guarantee for which the collateral was given has terminated and ceased.

IMPORTANCE OF ANSWERING INQUIRIES FROM THE HOME OFFICE.

Perhaps the most frequent complaint that agents make in regard to handling Fidelity and Surety Bonds is caused by the numerous inquiries they constantly receive from their home office, or general agents, regarding the status of risks which have been executed. The agent should remember, however, that he receives his compensation, be it in the form of a commission or in some other way, for rendering just such service, and that his company is entitled to his best efforts in answering promptly any inquiry concerning any risk. These inquiries have been proven essential from experience, and it has been found that many losses can be saved by properly following and keeping in touch with bonds after their execution. Prompt attention before the expiration of the term of the bond may result in removing difficulties and misunderstandings, which may exist, and which, if allowed to continue, would mean loss to the surety.

If the principal of the bond is acting in a fiduciary capacity under the direction of a court, or in case he is a contractor or public official, he may be advised or cautioned from time to time, and his affairs kept in order, if the surety is aware of the exact conditions. The various forms of inquiry in use

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are one of the means which the surety has of apprising itself of such conditions.

The information requested, from time to time, also serves another purpose. A surety company always places a limit as to the amount of liability which it is willing to assume on any particular applicant, and as in certain lines many bonds are required by the same applicant, the surety can best determine definitely how much more liability it may properly assume by learning exactly how much it is carrying by means of the necessary inquiries.

CLASSIFICATION OF INQUIRIES.

The various inquiries emanating from home offices will be taken up under the following heads:

1—INQUIRIES CONCERNING FIDELITY OBLIGATIONS.

Inquiries of this nature are not as numerous as those upon other kinds of bonds, and most of them arise when the applicant, from the moral point of view, is shown by the original investigation to be near the danger line, although the company has accepted the risk. In such cases it is customary, from time to time, to make additional investigation by means of requests to determine whether the principal, as a risk, is improving or deteriorating. Except for this reason, there will be very few requests for information regarding Fidelity Bonds, other than that required under the usual form of expiration notice, which is drawn to provide for a certificate of correctness and examination of accounts before a renewal certificate is issued. In securing these certificates, it should be the first duty of an agent to refer to his files and see that the statement made conforms with the warrant given by the employer at the time of execution of the original bond.

2—INQUIRIES CONCERNING CONTRACT OBLIGATIONS.

Inquiries upon bonds of this character are designed to keep the home office informed whether the work in connection

with which the bond was given has been completed, or if not, what percentage has been finished, the probable date of completion, and the amount of money which has been paid upon the contract. It is necessary for the surety to know whether the contract is proceeding in a satisfactory manner and whether the contractor has finished as great a percentage of work as he is called upon to do by the terms of his contract.

As construction contracts frequently provide a penalty for non-completion of the work at a certain date, these inquiries give a definite idea regarding the probable exaction of such penalty, and by considering the percentage of work completed and the amount of money paid on the contract, the surety can tell whether it will be necessary to take steps to urge the contractor to greater efforts or whether the operations are proceeding satisfactorily. If a contractor is slow and behind time in his work, he can frequently be made more energetic, if properly approached, and thus complete on time. If this cannot be done on account of weather or other conditions, the influence of the surety can be put forth to assist in obtaining an extension of time and thus prevent the exaction of the non-completion penalty. Even in cases where there is no penalty provided for non-completion, if the contractor is slipping behind in his work and losing money, he can frequently be helped along by the surety in many ways which may serve to save him from default on the contract, provided the surety has knowledge of his difficulty in proper time.

By referring to the chapter on Contract Constructural Bonds, it will be noticed that the relative amount of liability a surety company cares to assume on a particular contractor is based, among other things, on the amount of uncompleted work in hand. It is, therefore, obvious that if contract inquiries are promptly answered, and the necessary data furnished, it greatly facilitates the underwriting of further bonds on the contractor's behalf, and frequently enables an agent

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to extend to his clients a larger line of credit than would be possible if the home office were not absolutely in touch with the status of the various operations undertaken.

3—INQUIRIES CONCERNING JUDICIAL OBLIGATIONS.

The information required on judicial risks is the most annoying for an agent to secure, but it is absolutely necessary for the surety to obtain it, and if the agent uses proper care and promptness, he may save himself a great deal of trouble which would otherwise ensue.

Referring to the Indemnity Agreements which are signed by applicants to the various companies for Judicial Bonds, it will be seen that there is a distinct provision that the applicant will furnish the company with copies of all court papers which he is required by law to file, and it is only when this provision is not enforced that difficulty arises. As the typewriter is in such general use, it should be a very easy matter for any agent to comply with the requests of the home office by instructing his client to furnish him with a carbon copy of all papers filed in every case. The time for filing, accountings, etc., varies in the different states, and it is necessary for an agent to familiarize himself with the laws and rules of the courts in his territory. If he has this information at hand, he can make such notes on his current calendar as will enable him to secure the necessary data from his clients, and to forward it to the home office at the proper time. An agent should never forget that the surety is not warranted in cancelling a Judicial Bond on a mere verbal statement of either the applicant or his attorney, and as the applicant has agreed, in writing, to furnish the surety with a copy of the court release, or to pay an annual premium until he does so, the agent is expected to see that either one or the other of these things is done. Prompt attention to this will save his office from many inquiries it would otherwise be necessary to send.

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4—INQUIRIES CONCERNING PUBLIC OFFICIAL OBLIGATIONS.

Such inquiries as are made concerning these bonds are rendered necessary by the fact, that according to the various laws under which public officials operate, there are certain stated intervals at which they are required to make statements of their accounts and have same verified. The home office makes note of these intervals, and when such reports and examinations are due, will call upon the agent to get certified copies of same, and to verify the bank balances mentioned therein. If a public official is properly checked up by this means, experience has shown that not only can defalcations be prevented, but faulty office systems discovered, and in most cases so remedied as to benefit both the surety and the state, county and municipality in whose favor the bond runs.

As in judicial cases, the applicant agrees to furnish the surety with all information which is essential when he signs his application. It is only necessary, therefore, for the agent to make this fact impressive and to enforce this agreement to take care of the requests of his home office in this line.

5—INQUIRIES CONCERNING DEPOSITORY OBLIGATIONS.

Less trouble will be experienced in responding to inquiries from the home office on risks of this class than is the case with other risks. As most of the requests are for the various quarterly or semi-annual statements of the institution covered by the bond, the agent should make arrangements when the bond is executed for the bank to put his name upon the mailing list, and send such statements to him whenever they are issued. As in other lines of business, the information contained in these statements may often be such as to make the company feel that it is warranted in assuming greater liability on behalf of a particular principal, and for this reason, if for no other, the agent should give such matters his closest and most careful attention.

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AGENT'S OFFICE ORGANIZATION.

The general organization of an agency to handle the fidelity and surety business does not differ very materially from that of an up-to-date fire or casualty insurance agency.

In the preceding pages of this manual it has been undoubtedly noticed, that there are such differences between fidelity, surety, and the other lines of general insurance business as to make necessary a definite office system. The home office systems of the different surety companies, though similar, differ somewhat in detail. Generally speaking, as soon as possible after the agent is appointed, his office should be organized in accordance with the system of the home office of his company.

FILING SYSTEM—COPIES, ETC.

In installing a filing system it will be well to file copies of every application and the papers connected with them in an individual jacket. This should be numbered, and in addition, a card index should be installed by which these papers can be readily referred to by number, thereby enabling cross indexing when necessary.

The object in keeping copies of an application and other papers is to enable the agent, in the event of any trouble, to refer at once to his own files and secure the information necessary for the consideration of any problem that may come up in reference to a bond that has been executed. It will be found that this is particularly advantageous in case of any difficulty under a Contract or a Fidelity Bond, where prompt action is frequently necessary. In the latter case, in many instances, the answers of the applicant as to property held by himself, parents, location of family, etc., may be very useful in giving such quick information as may be necessary to apprehend a defaulter or bring about a satisfactory settlement.

All general correspondence between the agent and the home office not in connection with any particular application should

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be filed under separate headings divided with regard to the various departments of the home office. This should be indexed and cross indexed, so as to enable the agent to readily locate correspondence on any general subject pertaining to the business. Most home offices require correspondence to be directed to the departments by title in order to expedite the handling of the business.

INDEX SYSTEM.

Such an index system should be inaugurated as will bring to the attention of the agent notices of the expiration dates of the various bonds in force, and also the dates when there is due from the agent to the home office specific information in any of the classes of bonds referred to in previous chapters. By rigidly adhering to this system much trouble, annoyance and unnecessary correspondence will be saved the agency. This applies especially to Contract, Judicial and Public Official Bonds.

PROMPTNESS IN CORRESPONDENCE.

It is hardly necessary to state that all correspondence should be promptly answered. If the information asked for cannot be promptly given, the letter should be acknowledged and a date set when the information desired can be furnished.

SEPARATE ACCOUNTS FOR FIDELITY AND SURETY BUSINESS.

A separate and complete set of accounts should be kept for the fidelity and the surety business. This should be done because of the fact of the different manner of handling, renewing and collecting premiums in each of these classes of business, and also in order to facilitate the adjusting of accounts between the agent and his home office.

COLLECTION OF PREMIUMS.

The collection of premiums is a very important factor in the success of any agency. It will be well for the agent to

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keep a memorandum showing all outstanding accounts, which will enable him to keep in touch with the outstanding premiums and greatly facilitate the collection of same.

ORGANIZATION OF TERRITORY.

If an agent is operating an extensive territory, it is of importance that he should organize his territory by the appointment of sub-agents, especially, in the county seats from which a great part of the business in his territory will come. The agent should not only instruct the sub-agents as to the proper office organization in their own offices, but should also organize his own office in such a way as to enable him to properly work with his sub-agencies. This can be done in various ways, as for instance, by notifying them of the letting of contracts, and furnishing other information, also coaching the sub-agents as to where and how the business should be obtained. Where it has been found necessary to issue to such a sub-agent a power of attorney for the execution of any form of bond, the agent cannot lay too much emphasis on the fact of the grave responsibility then resting on the subordinate, for most bonds when once issued cannot be cancelled. This is different from most of the other lines of insurance, which permit cancellation of the risk by notice. The individual responsibility, therefore, in representing a fidelity or surety company is many times greater than that placed upon any one occupying a like position in the companies handling any of the other lines of insurance, and this important fact, as well as the gravity of the situation that may arise in deviating a particle from the instructions of the home office, should be firmly planted in the minds of both the agent and sub-agent.

THE ART OF SOLICITING.

There have been many articles written on the subject of the different ways of soliciting insurance and the various qualifications and characteristics that go to make up an in-

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insurance solicitor. The general practises and policies used in other soliciting work can be applied to the soliciting of bonds. As stated in a previous chapter, bonds are generally given under compulsion or requirement and not voluntarily. This greatly facilitates the soliciting of this particular line of business. A solicitor, in order to keep in touch with prospective clients, should make up a card index, which should catalogue all contractors, lawyers, bankers, merchants and manufacturers in his territory. He should make the personal acquaintance, if possible, of each individual on his list, with a view of forming connections that will enable him to secure their business. When a client is once secured, an effort should be made to get from him introduction by letter or otherwise to others for similar purposes. This applies particularly to contractors and lawyers. In the case of an expiring bond that has to be renewed, about a month before the date of expiration all the influence possible should be brought to bear on the assured, for the purpose of enabling the agent to secure the renewal of the obligation.

It is also well for solicitors to form the acquaintance of the architects in their territory, from whom a great deal of information can be obtained in regard to prospective building enterprises. This information can be turned to great advantage in soliciting for business.

It will be noted, by reference to various chapters of this manual, that there are many bonds required by statute or some local municipal regulations, which, as a rule, are rewritten at a specific or fixed date. In these cases a list of the firms, etc., who are about to rewrite these obligations should be made, and they should be communicated with through the best channels for the purpose of securing their patronage.

It is also desirable before any election, either general or local, to get in touch with the different candidates, with the view of obtaining their Official Bonds and the bonds of those

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connected with their offices, in case they are successful. This also applies to those who receive office through appointment, whether national, state or otherwise.

If a system of careful card indexing with its proper following up system is adopted, a solicitor will find that in a comparatively short time he will be enabled to build up a lucrative business.

“DON'TS,”
OR FAMILIAR HINTS TO AGENTS.

For emphasis and ready reference a few agency “don’ts” are here set out. They are not necessarily noted in the preceding pages as some refer to phases of the fidelity and surety business not heretofore touched on.

DON’T:

deceive your company. Give it the benefit of every doubt
—it pays in the end.

forget you are the “eyes” and “ears” of your company, and you should furnish full facts on first intimation of trouble.

forget that the valuable agent is the one who tries to protect his company’s interests.

neglect to work in an endeavor to get the confidence of your home office. When this has been obtained, things are bound to run smoothly.

write on more than one subject in a letter. This facilitates filing in home office and promptness in reply.

offer business to your home office which you know will be declined. You lose one of your best assets, their confidence, by so doing.

accept and recommend to your company, risks that other companies have declined. If you submit such a proposition, tell all about it and why it was declined by the other company.

DON'T:

ignore the company's requests for information as to the progress of work, etc. This is most important for the completion of the home office records, and for other reasons.

overlook the fact that your company is selling in most cases "credit" or "service," and is not supposed to take any risk.

fail to familiarize your company with all local conditions surrounding each risk submitted. This will insure prompt service.

think, because a competitive agent is after a piece of business it will necessarily be approved by his home office.

lose sight of the fact that the home office underwriters are not mind readers. Give full and authentic information with each proposition, so it may be acted on intelligently.

think you know it all. There are others, and they have had experience too.

forget the importance of having the principal understand the amount of premium to be paid. It will save you endless trouble.

take a back seat in the management of your business. Be the head and front of the business. That's where you belong.

"knock" your competitors. Meet them in a fair and square contest, and let the best man win.

ask the company to write a bond that you would not be willing to become surety for yourself.

allow your account to become overdue. Any agent behind in his accounts does not stand in the good graces of his home office.

DON'T:

overlook the fact that there is no cancellation clause in Surety Bonds, and a risk once assumed cannot, if determined undesirable, be cancelled.

fail to remember that it is the little bonds that never ought to be written, that aggregate a large portion of the annual losses paid by surety companies.

let anyone tell you that a bond is a matter of form and no liability. It is a delusion and a snare.

let anyone persuade you to write a bond against your better judgment.

execute any bond under your power of attorney in excess of the 10% limit of your company, without proper arrangements for taking care of such excess.

fail to submit every doubtful proposition to the home office for approval. Execute no bonds unless absolutely certain that they are all right.

exceed your power of attorney. Follow closely all letters of instructions.

overlook the fact that several courts have held an agent personally responsible for loss sustained, where the agent exceeded his instructions.

forget to send a copy of each bond executed, at the time of forwarding the application.

write "financial guarantees," without cash or marketable securities.

write bonds for negroes or ignorant foreigners.

fail to see that the applicant and employer fill out the statements in their own handwriting. Never fill out such papers for them; this is important.

DON'T:

take anything for granted. Verify the applicants' cash in bank and real estate holdings; this is most important.

forget the importance of investigating the financial standing of an applicant, and of posting yourself as to Homestead laws and married woman's rights.

fail to have the company's printed form of bond accepted wherever possible and make no erasure on same without authority from home office.

fail to see that all papers are properly and legally witnessed. When in doubt, ask your attorney.

allow any interlineation on any papers. If necessary, see that such changes are legally done.

alter a signed instrument (even verbally), without authority from your home office.

agree to an assignment or transfer of an interest in any bond without consent of home office. By so doing you may, among other things, release the indemnitor, co-sureties or re-insurers of the risk.

overlook the necessity, when taking the indemnity of a corporation, to see that the corporation is in a legal status to give it.

take personal bonds of indemnity. They fade away overnight. Get something tangible—then you are sure.

forget to *beware* of the "guess work" financial statements. If an applicant does not keep such a set of books as to give you a correct detailed financial statement, his business methods are such as to make him an undesirable risk.

overlook the necessity of collecting premium upon the delivery of bond. This is for the protection both of your client and your company.

DON'T:

delay the service of cancellation notices on the assured when requested by the home office.

get the idea that on a "shady" or doubtful line of business, volume will take care of losses.

write Fidelity Bonds—let the home office do it for you.

write a bond on any contract in which you are personally interested.

overlook the "Rush Order" Contractor's Bond. As a rule the contractor is either too careless to be a good risk or his bond has been declined by another company.

write a bond for a contractor, who has on hand as much work as he can properly finance; "too much work on hand" has been the cause of many a contractor's downfall.

write bonds when there is a great difference between the figures of the bidders.

write bonds for a contractor, if he is to receive anything but money in payment for his work.

write bonds guaranteeing cost of building when contractor works on percentage.

write bonds on building and loan schemes.

write Court Bonds, which guarantee the payment of money under certain contingencies without security.

fail to secure Joint Control on all "long term trusts." The company's interests are then protected.

forget that Joint Control carelessly exercised is very dangerous and worse than none as a protection to your company.

issue bonds for fiduciaries on partially administered estates.

DON'T:

forget that in some jurisdictions that a debt due an estate by the fiduciary is an asset for which the surety is liable.

write Fiduciary Bonds for women without Joint Control. submit bonds for "holdover" public officials, who handle and have the custody of large sums of money.

expect your company to write for one premium charge a Public Official Bond that guarantees not only an applicant's honesty and faithful performance of duty, but also the solvency of the bank or banks wherein funds, coming into his hands, are placed on deposit.

fail to absorb the company's reasons for turning down a risk. It will enable you to steer clear next time.

forget in case of a claim the importance of not committing or compromising your company without authority from your home office. Awkward situations may thus be avoided. Better consult your attorney.

sit in the office and expect business to come to you. There are others after it every minute. Be the "live wire," the man "on the job."

get "premium crazy" and contract the disease known in surety circles as "premiumitis."

forget that good business judgment, energy and loyalty to your company are your best business assets.

SPECIMEN FORMS.

SAMPLE APPLICATION FORM USED FOR GENERAL EMPLOYEES, AGENTS, ETC.

I hereby make application for a bond for \$ _____ to date from 190 ____.

1. Give name in full _____ Age _____ years.

2. Residence (Street and Number). _____ 3. City and State? _____

4. Where and when born? _____

5. If a foreigner, state how long you have resided in this country _____

6. Married or single? _____ 7. Father _____

Occupation _____ (If parents are deceased, give names and addresses of some male relatives.) Address _____

8. Mother Address _____ 9. To whom is the bond to be given? (Give exact title of firm, company or organization) _____

10. Home office of employer? _____ 11. What will be your business address? _____

12. What is the nature of the business carried on by your employer? _____ 13. What will be your title in the position you will occupy? _____

14. State the duties of this position _____

15. How long have you been in the service of the above employer? From _____

16. In what positions? _____

17. How long in the position for which bond is now required? _____

18. Who will pay the premium for this bond? _____

19. Have you previously given bond to the above employer? _____

20. Who furnished it? Amount? \$ _____

21. Why was it discontinued? _____

22. Has your application for a bond ever been declined? _____

23. By whom? _____

24. What salary or compensation will you receive? \$ _____

25. Are you responsible for any portion of losses that may be occasioned by bad credits given? Give particulars _____

26. Have you income other than your salary as above stated? \$ _____

27. From what source? _____

28. Do you own real estate in your own name? If so, state following particulars:

LOCATION.	DESCRIPTION.	VALUE.	INCUMBRANCE.
_____	_____	_____	_____
_____	_____	\$ _____	\$ _____
_____	_____	_____	_____

29. Do you own any personal estate? Value? \$ _____

30. Are your parents possessed of any property? Value? \$ _____

31. State amount of your debts and liabilities other than liens on property, \$ _____

32. If other than current

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bills, explain nature of your debts and state what effort you are making to liquidate the same . . . 33. Are you member of any club or fraternal association? Give names and locations . . . 34. How many persons are dependent upon you for support? . . . 35. Is your life insured? To what amount? \$. . . State nature of policies, name of companies and to whom payable . . . 36. Do you ever engage in speculative transactions? Of what nature? . . . 37. Do you use intoxicating liquors as a beverage? . . . 38. Did you ever use them to excess? How long since? . . . 39. Were you ever in business on your own account? Where? . . . 40. When? From to . . . 41. Reason for discontinuing same? . . . 42. Did you ever make an assignment for the benefit of your creditors? . . . 43. When? What settlement was made? . . . 44. Will you have any business interests other than those incident to the position for which this bond is required? Give particulars . . .

Please fill in the following schedule the particulars of your employment during the past ten years, and previous thereto, if any, having care to cover the full disposition of your time, whether employed or out of work.

If not in business during the entire period, give dates, names and addresses of your school teachers.

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Former Employer's Name and Address.	Location When Holding Position.	From What Date?			To What Date?			Describe Fully the Position Occupied.	Name and Present Address of Immediate Superior.	If Under Bond State Name of Surety Co. or Personal Bondsmen.	Your Reasons for Leaving.
		Day.	on th.	Year.	Day.	Month.	Year.				
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											

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REFERENCES.

Give at Least Five. Write Names and Addresses Plainly.

Do Not Give Former Employers as References.

NAMES.	OCCUPATION.	P. O. ADDRESS.
1		
2		
3		
4		
5		

In consideration of the _____ company issuing the bond for which application is hereby made, I do hereby agree and bind myself, my heirs, executors and administrators, to pay the premium or fees hereafter agreed upon, to wit: _____ dollars (\$ _____) per annum, in advance, while said bond shall continue in force; and to reimburse the said company for all loss, costs, damages, charges and expenses whatever, resulting from any act, default or neglect of mine, that said company may sustain or incur by reason of having executed said bond, or any renewal or continuation thereof. And I do further agree that the vouchers, or other evidence of payment of such loss paid by said company to the employer under such obligation together with vouchers or other evidence of payment of all costs and expenses whatever, incurred by said company in adjusting said loss, shall be taken as conclusive evidence against me and my estate of the fact and extent of my liability under said obligation to the said company.

I further agree that said _____ company may decline to issue said bond hereby applied for, and in case it does issue said bond, it shall have the right to withdraw or cancel the same whenever it shall see fit; and in any event the company shall not be required to disclose the reasons upon which its action is based and shall not be responsible for any loss or damage that I may sustain by reason of such action.

In testimony whereof, I hereunto subscribe my name this
day of _____ A. D., 190 _____.

Witness: _____

(Signature.)

PHYSICAL DESCRIPTION OF APPLICANT.

Applicant will please fill out this blank.

Age	Height	Weight	Complexion	Color of eyes
Color of hair	Color of mustache	Color of beard	Birth-marks,	prominent scars or other distinguishing features

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**SAMPLE EMPLOYER'S STATEMENT FORM USED
FOR GENERAL EMPLOYEES, AGENTS, ETC.**

An application has been made to this company to issue a bond of security for Mr. as in your service, at to the amount of \$.

The company desires to have answers to the following questions, and these answers will be taken as the basis of the bond if issued.

1. To whom is the bond to be made payable? (Give exact title.)
2. From what date is it to be written, and for what amount? \$.
3. Who will pay the premium? .
4. How long have you known the applicant? How long has he been in your employ? Have you knowledge of any habit of the applicant or any circumstance unfavorable to the issuance of the bond applied for? If so, state particulars .
5. What salary will he receive? How and when will same be paid to him? .
6. What will be the title of applicant's position? Explain fully his duties in connection therewith .
7. If his duties embrace the custody of cash, state largest amount likely to be in his custody at any one time. For what length of time is he apt to have control of such amount? .
8. Will he be authorized to pay out, of the cash in his custody, any amounts on your account? In what manner is such authority given? .
9. Is he required to make deposits in bank; if so, how often? Give name of the depository. State whether he is allowed to endorse checks drawn to your order, and for what purpose. Is he authorized to accept drafts on your behalf? .
10. Will he be authorized to sign checks on your behalf? Will the countersignature of any other person be invariably required; if so, whose? .
11. To whom will he account for his handlings of funds and securities? How frequently will he make settlements? .
12. What means will you use to ascertain whether his accounts are correct? How frequently will they be examined? .
13. When were his accounts last examined? .
14. Were they at that time in every respect correct, and proper securities and funds on hand to balance? .
15. Is there now, to your knowledge, any shortage due you by applicant? Has he ever been short with you? .
16. Is he now in debt to you? If so, state amount and nature of such. .
17. Have you ever sustained loss through the dishonesty of any one holding the position of the applicant? .
18. If so, state amount and nature of such. .
19. Will you require additional surety from the applicant other than the amount applied for to this company? If so, state amount and by whom given .

It is agreed that the above answers are to be taken as conditions precedent and as warranties in the said bond applied for, or any renewal or continuation of the same that may be issued by the company to the undersigned, upon the person above named.

Dated at this day of 19 . Signature of
employer , by , official capacity.

This form must be returned to the Home Office before the bond will be issued.

SAMPLE EMPLOYER'S STATEMENT FORM USED FOR BANK EMPLOYEES.

To the President of the Bank, .
An application has been made to this company to issue a bond
of security for Mr. as in your service to the amount
of \$.

The company desires to have answers to the following questions,
and these answers will be taken as the basis of the bond if issued.

1. To whom is the bond to be made payable? (Give exact title.)
State capital and resources of bank. Capital \$ De-
posits \$ Surplus \$ Undivided profits \$.
Has the bank a State charter? Date . 2. From
what date is bond to be written, and for what amount? What
further security, if any, will be required from applicant? Who
will pay the premium for the bond required? . 3. How
long have you known the applicant? How long has he been
in the bank's service? Has he hitherto furnished security to
the bank? If so, who furnished it? If not, why is this
bond required? . 4. Has the applicant uniformly given
satisfaction in his personal conduct and habits? Has he kept
his accounts correctly and made proper settlements of all cash and
securities entrusted to his care? . 5. Is he now, or
has he been, from any cause indebted to the bank or its officers?
If so, give particulars, stating amount, how incurred and
how payment is secured. . 6. Is he now, or about to
be engaged or interested in any other business or employment, than
in the bank's service? If so, does the bank approve such
division of interest or occupation. . 7. What will be
the title of applicant's position? Explain fully his duties in
connection therewith. . 8. What salary will he receive?
9. In case of the applicant acting as teller, will he
be required to balance his cash, daily, and report same to presi-
dent or cashier? Will a record of such report be kept? .
10. Will the applicant have access to the treasury of the bank?
If so, under what restrictions? . 11. In case of
applicant handling cash or securities, how often will the same
be examined and compared with the books, accounts and vouchers,
and by whom? . 12. At what date and by whom were
applicant's books and accounts (including cash, securities and
vouchers, if any), last inspected and examined? Were they
at that time in every respect correct, and proper securities and
funds on hand to balance? . 13. Are the pass books
of your depositors periodically balanced? How often?
By what employee of the bank? . 14. Does the bank
require its bookkeepers to change ledgers? If so, at what
periods? . 15. At what date was the bank last exam-
ined in person by a National or State official? Was the re-
sult of such examination, so far as known to the bank's officers
and directors, entirely satisfactory to that official? .
16. If the active staff of the bank consists of six or less, please
state respective positions.

It is agreed that the above answers are to be taken as con-
ditions precedent to and as warranties in the said bond applied for,

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or any renewal or continuation of the same that may be issued by the company to the undersigned, upon the person above named.

Dated at this day of 19 . Bank, by
, official capacity.

This form must be returned to the Home Office before bond will be issued.

**SAMPLE APPLICATION FORM FOR SOCIETIES,
BENEFICIAL ORDERS, ETC., FOR SECRE-
TARIES, TREASURERS AND OTHER OFFI-
CIALS WITH EMPLOYER'S STATEMENT AT-
TACHED. USED FOR BONDS OF LESS
THAN \$1,000.**

I hereby make application for a bond of \$ _____, as _____ of _____
and affirm that in the following declarations made, I state
the truth without reservation.

1. Name of applicant _____ 2. Age _____ Single or married _____
 3. Residence (Street and Number) _____ City and State _____
 4. How long a member of this organization? _____
 5. Did you previously occupy this position? _____ How long? _____
 6. By whom are your accounts examined, and at what periods? _____
 7. Are you engaged in any business or other employment? Give particulars _____ Business address _____
 8. If an employee, give name and address of present employer _____ Length of time in above employ _____
 9. Do you own any real or personal estate? Value? \$ _____

10. State amount of your debts and nature of same, \$.
In consideration of the company issuing the bond for which application is hereby made, I do hereby agree, and bind myself, my heirs, executors and administrators, to reimburse the said company for all loss, costs, damages, charges and expenses whatever, resulting from any act, default, or neglect of mine, that said company may sustain or incur by reason of having executed said bond or any renewal or continuation thereof. And I do further agree that the vouchers, or other evidence of payment of such loss paid by said company to the employer under such obligation together with vouchers or other evidence of payment of all costs and expenses whatever, incurred by said company in adjusting said loss, shall be taken as conclusive evidence against me and my estate of the fact and extent of my liability under said obligation to the said company.

I further agree that said company may decline to issue said bond hereby applied for, and in case it does issue said bond, it shall have the right to withdraw or cancel the same whenever it shall see fit; and in any event the company shall not be required to disclose the reasons upon which its action is based and shall not be responsible for any loss or damage that I may sustain by reason of such action.

In testimony whereof, I hereunto subscribe my name this day of A. D., 19 .

(Signature.)

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

STATEMENT OF THE EXECUTIVE OFFICER OF THE ORDER RELATIVE TO THE BOND HEREIN APPLIED FOR.

1. To whom is bond to be made payable? (Exact title.) .
2. Amount of bond required, \$. To date from . 3.
- Have the books and accounts of the applicant or his predecessor been examined and found correct? If so, up to what date, and by whom? . 4. Has he previously occupied this position? If so, did he perform his duties and render his accounts satisfactorily? . 5. Is the applicant now, or has he ever been short, in arrears or default in his accounts to this order? .

It is agreed, on behalf of the order to which the bond applied for shall run, that the above answers are to be taken as conditions precedent to and as warranties in said bond applied for, or any renewal or continuation of the same that may be issued by the . company to the said order, upon the person above named.

Dated at this day of 19 . Name and number of order By .

(Signature.)

(The signature of the officer signing this should be attested by the seal of the order or association.)

SAMPLE APPLICATION FORM FOR SOCIETIES, BENEFICIAL ORDERS, ETC., FOR SECRE- TARIES, TREASURERS AND OTHER OFFI- CIALS WITH EMPLOYER'S STATEMENT AT- TACHED. USED FOR BONDS OF \$1,000 AND OVER.

- Application for bond of \$. to be given to . in the position of .
1. Name of applicant . Age .
 2. Residence (Street and Number) . 3. City and State .
 4. Business address . 5. Single or married? .
 6. How long a member of this organization? .
 7. Title of applicant in position for which bond is required? . 8. What are your duties in this office? (Supply extracts from Constitutions and By-laws) . 9.
 - How long have you held this position? . 10. Has your application to any company for a Fidelity Bond ever declined? .
 - If so, state name of company and particulars . 11.
 - What amount of money will you handle during the year in this position? \$. 12. Largest amount apt to be under your control at any time? \$. 13. Where are funds deposited? .
 14. By whom is the depository designated? .
 15. In what name are the above mentioned deposits kept? . 16. Are you empowered to draw or check upon such deposits? . 17. If so, is countersignature of any one required, and of whom? . 18. By whom are your accounts examined, and at what periods? . 19. Are you allowed to make payments in cash from the funds of the Association? If so, state particulars . 20. What is your compensation, and how is same paid? . 21. Are you

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

engaged in any business or other employment? Give particulars
 . 22. If an employee, give name of present employer
 Address . 23. Length of time in above employ
 . 24. State amount of annual income from business
 or employment, \$. 25. Do you own any real estate?
 Value? \$. 26. Do you own any personal estate?
 Value? \$. 27. Is there any encumbrance on
 your property? Amount? \$. 28. State amount of
 your debts and liabilities other than liens on property.
 \$. 29. How many persons are dependent upon you for
 support? . 30. Is your life insured? To what
 amount? State nature of policies and to whom payable .

REFERENCE.

Give at Least Five. Write Names and Addresses Plainly.

NAME.	STREET ADDRESS.	CITY AND STATE.
1.....		
2.....		
3.....		
4.....		
5.....		

In consideration of the company issuing the bond for which application is hereby made, I do hereby agree, and bind myself, my heirs, executors and administrators, to pay the premium or fees hereafter agreed upon, to wit: dollars (\$) per annum, in advance while said bond shall continue in force, and to reimburse the said company for all loss, costs, damages, charges and expenses whatever resulting from any act, default, or neglect of mine, that said company may sustain or incur by reason of having executed said bond or any renewal or continuation thereof. And I do further agree that the vouchers, or other evidence of payment of such loss paid by said company to the employer under such obligation together with vouchers or other evidence of payment of all costs and expenses whatever, incurred by said company in adjusting said loss, shall be taken as conclusive evidence against me and my estate of the fact and extent of my liability under said obligation to the said company.

I further agree that said company may decline to issue said bond hereby applied for, and in case it does issue said bond, shall have the right to withdraw or cancel the same whenever it shall see fit; and in any event the company shall not be required to disclose the reasons upon which its action is based and shall not be responsible for any loss or damage that I may sustain by reason of such action.

In testimony whereof, I hereunto subscribe my name this
 day of A. D., 19 .

Witness: .

(Signature.)

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

PHYSICAL DESCRIPTION OF APPLICANT.

Applicant will please fill out this blank.

Age	Height	Weight	Complexion	Color of
eyes	Color of hair	Color of mustache		Color of beard
Birth-marks, prominent scars or other distinguishing features				

STATEMENT RELATIVE TO THE BOND PROPOSED TO BE GIVEN BY COMPANY

Chief executive officer of the order, please fill out this blank.

- | | |
|---|---|
| 1. On behalf of Mr. | 2. In the position of |
| 3. Bond is to be made payable to | 4. Address |
| 5. Amount of bond, \$ | to date from 19 |
| 6. Premium to be paid by | 7. Is the applicant now, or has he been from any cause, in arrears to this order? |
| 8. Give particulars | 9. What compensation will he receive? |
| 10. From whom, or from what sources, will he receive moneys? | 11. What will probably be the largest amount in his possession at any one time? \$ |
| 12. What disposition will he make of funds coming into his hands? | 13. Will he be required to deposit moneys in a special bank account? |
| 14. If so, give name of bank | 15. Who will designate the bank to be used? |
| 16. In what name will such account be kept? | 17. What official signatures will be required on checks to withdraw funds? |
| 18. Will he be authorized to pay out, of the cash in his custody, any amounts on your account? Give particulars | 19. To whom will he account for his handling of funds and securities? |
| 20. How frequently will he make settlements? | 21. How often will his books and accounts be audited and verified with funds on hand or in bank, and by whom? |
| 22. When was the last audit of applicant's account made? | 23. Were they at that time in every respect correct and funds on hand to balance? |

It is agreed that the above answers are to be taken as conditions precedent to and as warranties in the said bond applied for or any renewal or continuation of the same that may be issued by the company to the undersigned, upon the person above named.

Dated at this day of 19 . Name of order or association By , official capacity.

(The signature of the officer signing this should be attested by the seal of the order or the association.)

SAMPLE APPLICATION FORM FOR MISCELLANEOUS FIDELITY CASES.

- | | | |
|---|-----|--|
| 1. Name of applicant | Age | 2. Single or married? |
| 3. Residence? | | 4. Business address? |
| 5. Give exact title of firm, organization or individual to whom bond is to be given | | 6. Address? |
| 7. Amount of bond required? \$ | | 8. From what date is bond to be written? |
| 9. For what term? | | |
| 10. Give below full information regarding the character of the guarantee required: | | 11. What is your compensation, |

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

and how is same paid? 12. Are you engaged in any other business? (If so, state character of same and income therefrom) 13. Give description and value of your real and personal property, and state amount of encumbrance, if any, thereon: 14. Do you carry life insurance? (If so, state amount and character of policies and to whom payable.) 15. The following statement of the financial condition of applicant is made for the purpose of inducing the company to execute the bond hereby applied for:

ASSETS.	PRESENT MARKET VALUE.	LIABILITIES.	AMOUNT, AT DATE.
Cash on hand.....		Borrowed or due on	
Cash in.....Bank		Stocks and Bonds...	
Stocks and Bonds.....		Borrowed or due on	
Real Estate, and where		Real Estate..	
located.....		Encumbrance on plant.	
.....		Accounts payable.....	
Plant.....		Other liabilities, give	
Accounts receivable.....		particulars.....	
Merchandise.....			
Other assets, give par-			
ticulars.....			
.....			
	\$		\$

Bank Reference:.....

16. Give the names and addresses of four or more persons, not related to you, who have known you for some years past, writing names and addresses distinctly. I certify that the answers given to the foregoing interrogatories are true; and in consideration of the company executing bond herein applied for, I do hereby covenant, promise and agree to pay the premium or fees hereafter agreed upon, viz: (\$) per annum, in advance, made by the company for executing said bond, and continuing the same, until said company shall, in the manner provided by law, be discharged or released from any and all liability and responsibility upon and from said bond and all matters arising therefrom, and proper legal evidence of such discharge or release be served on the company and to pay the said company any and all loss, costs, charges, suits, damages, counsel fees and expenses of whatever kind or nature, which said company shall or may, for any cause, at any time, sustain or incur, or be put to, for or by reason, or in consequence of said company having entered into or executed said bond. I further agree that said company may decline to issue said bond hereby applied for, and in case it does issue said bond, shall have the right to withdraw or cancel the same whenever it shall

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see fit; and in any event the company shall not be required to disclose the reasons upon which its action is based and shall not be responsible for any loss or damage that I may sustain by reason of such action.

In testimony whereof, I hereunto subscribe my name this day of A. D., 19 .

Witness: . .

Applicant.

SAMPLE FORM OF INDIVIDUAL FIDELITY BOND.

ISSUED TO INDIVIDUALS OR FIRMS COVERING LARCENY OR
EMBEZZLEMENT.

(The wording is changed slightly when issued to corporations.)

Whereas, (hereinafter called the "employee") has been appointed to the position of in the service of (hereinafter called the "employer"), and has been required to furnish a bond for his honesty in the performance of his duties in said position. And

Whereas, the employer has delivered to the Company, a corporation of the State of (hereinafter called the "company"), certain statements and certificates in writing relative to the duties, responsibilities and accounts of the employee, the manner of conducting the business of the employer, and the manner of checking and verifying the accounts of said employee, and other matters connected with the issuance of this bond, which together with any other statements, certificates and agreements in writing, made, or to be made by the employer, and required by or lodged with the company, do and shall, constitute the basis of this contract, or any continuation thereof, and are hereby made a part hereof the same as if herein incorporated.

Now, therefore, in consideration of the sum of dollars (\$) paid as a premium for the period from to at twelve o'clock noon, and upon the faith of the aforesaid statements, certificates and agreements of the employer, the truth of which said employer does hereby warrant.

It is hereby agreed and declared, that, subject to the warranties hereinbefore mentioned, and the provisions, conditions and agreements herein contained, the truth of which warranties, and the fulfillment of which provisions and agreements shall be conditions precedent to the right of the employer to recover under this bond, the company shall, at the expiration of three months next after satisfactory proof of a pecuniary loss, as hereinafter mentioned, reimburse the employer, to the extent of the sum of dollars (\$), and no further, for such pecuniary loss as the employer shall have sustained by any act of larceny or embezzlement on the part of the employee in the performance of the duties of the office or position in the service of the employer hereinbefore referred to, as the same have been, or may hereafter be, stated in writing by the employer to the company, and occurring during the continuance of this bond, and discovered during said continuance or within six months thereafter, or in case of the death, resignation or removal of the employee prior to the expiration of this bond, within six months after such death, resignation or removal.

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

It is further agreed and declared, that this bond may be continued from year to year, at the option of the employer, at the same or an agreed premium rate, so long as the company shall consent to receive the same, in which event the company shall remain liable for any act of larceny or embezzlement committed by the employee between the original date of this bond and the time to which it shall have been continued; Provided, that the liability of the company as surety for the employee to the employer shall not exceed the amount above written, whether the loss shall occur during the term above named, or during any continuation or continuations thereof, or partly during the said term and partly during said continuation or continuations;

That the employer shall immediately give the company notice in writing, by a registered letter, addressed to the president of the company, of the discovery of any act which may be made the basis of any claim hereunder, and shall file with the company his itemized claim hereunder at his own cost and expense, with full particulars thereof, duly sworn to within three months thereafter. And any claim which shall not be filed by the employer with the company within six months after the expiration or cancellation of this bond, or within six months after the employee shall have ceased to be in the employer's service, shall not be payable hereunder. And upon the making of such claim, this bond shall wholly cease and determine as regards any liability for any act of the employee, committed subsequent to the discovery of such loss, and this bond shall be surrendered to the company on payment of such claim.

That the employer shall at once notify the company on becoming aware that the employee is engaging in speculation, gambling, or in any disreputable or unlawful habits or pursuits.

That if the employer shall at any time hold concurrently with this bond, or represent to the company in any statement or declaration to it, that he does or will at any time hold concurrently with this bond, any other bond or guarantee of security from or on behalf of the employee, the employer shall be entitled in the event of loss as hereinbefore stated, to claim hereunder only such proportion of the loss as the amount covered by this bond bears to the whole amount of security carried, or so stated as carried or to be carried on the employee's behalf, whether the employer shall be able to reimburse himself from such other bond or guarantee so carried, or stated to be carried or not, or whether the same has been allowed to lapse or not.

That if the company shall so elect, this bond may be cancelled at any time by giving one month's notice to the employer, and refunding the premium paid, less a pro rata part thereof, for the time this bond shall have been in force, remaining liable for any act or acts covered by this bond, which may have been committed by the said employee, up to the date of such determination, and discovered and notified to the company within the limit of time hereinbefore provided for.

That the employer shall, if so required by the company, duly apply for a warrant for the arrest of the employee for any act of larceny or embezzlement which is the basis of any claim hereunder, giving all the aid and information in his power (at the cost and expense of the company) to bring the said employee to justice or to aid the company to sue for or obtain reimbursement from the employee, his estate or a third person, of the moneys which the company has paid or become liable to pay, by virtue of this bond.

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That if the employer shall entrust the employee with money, securities, or other personal property, after having discovered any act of dishonesty or shall condone any act for which the company may be liable hereunder; or shall make any settlement with the employee for any loss hereunder, without previous notice to and consent of the company thereto, this bond shall be null and void, and any wilful misstatement or suppression of facts in any claim made hereunder renders this bond void from the beginning.

That any suits at law or proceedings in equity brought against this bond, to recover any claim hereunder, must be instituted and process served upon the company within twelve calendar months next after the first notice of said claim is filed with the company.

That the company, upon the execution of said bond, shall not thereafter be responsible to the employer under any bond previously issued to the employer on behalf of said employee, and upon the issuance of any bond subsequent hereto upon said employee in favor of said employer, all responsibility hereunder shall cease and determine, it being mutually understood that it is the intention of this provision that but one (the last) bond shall be in force at one time, unless otherwise stipulated between the employer and the company, and the company shall in no event be liable in respect of any shortage existing at the commencement of this bond or for funds or property used to make good the same.

That no one of the above conditions or provisions contained in this bond, shall be deemed to have been waived by, or on behalf of the company, unless the waiver be in writing, over the signature of its president and secretary, and its seal thereto affixed.

In witness whereof, the said (the employee) has hereunto set his hand and seal, and the said company has caused this bond to be signed by its president and its secretary, and its corporate seal to be hereto affixed this day of in the year

Signed, sealed and delivered by the said employee in the presence of

(Seal) Employee . President. Secre-
tary.

SAMPLE FORM OF GENERAL SCHEDULE BOND.

LARCENY AND EMBEZZLEMENT.

Whereas, (hereinafter called the "employer"), has employed or intends to employ certain persons in (which persons are hereinafter called the "employees"), and are named on a schedule hereto attached and made a part hereof; and

Whereas, the employer has delivered to the Company, a corporation of the State of (hereinafter called the "company"), certain statements and certificates in writing relative to the duties, responsibilities and accounts of the employees, the manner of conducting the business of the employer, and the manner of checking and verifying the accounts of said employees and other matters connected with the issuance of this bond, which together with any other statements, certificates and agreements in writing, made, or to be made by the employer and required by or lodged with the company, do and shall constitute the basis of this contract, or any continuation thereof, and are hereby made a part hereof the same as if herein incorporated.

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

And it is hereby declared, that if the employer be a corporation, any statements, certificates or agreements made in writing by the president, secretary, treasurer, cashier, or any other officer or director of the employer, shall be considered the statements, certificates or agreements of the employer within the meaning hereof.

Now, therefore, in consideration of the sum of dollars (\$) paid as a premium for the period from to at twelve o'clock noon, and upon the faith of the aforesaid statements, certificates and agreements of the employer, the truth of which said employer does hereby warrant.

It is hereby agreed and declared, that, subject to the warranties hereinbefore mentioned, and the provisions, conditions and agreements herein contained, the truth of which warranties, and the fulfillment of which provisions and agreements shall be conditions precedent to the right of the employer to recover under this bond, the company shall, at the expiration of three months next after satisfactory proof of a pecuniary loss, as hereinafter mentioned, reimburse the employer for such pecuniary loss as the employer shall have sustained in money, securities or other personal property by reason of any act of larceny or embezzlement of any of the employees named upon the schedule hereto attached, or any additions thereto made as hereinafter provided, in the performance of the duties hereinbefore referred to, as the same have been or may hereafter be stated in writing by the employer to the company, and occurring during the continuance of this bond and discovered during the said continuance or within six months thereafter, or, in case of the death, resignation or removal of the employee prior to the expiration of this bond, within six months after such death, resignation or removal.

Provided, that the liability of the company as surety for the employees to the employer shall not exceed the sum last written opposite their names on said schedule or additions thereto, whether the loss shall occur during the term above named, or during any continuation or continuations thereof, or partly during the said term and partly during said continuation or continuations.

It is further agreed and declared, that this bond may be continued from year to year, at the option of the employer, at the same or an agreed premium rate, so long as the company shall consent to receive the same, in which event the company shall remain liable for any act of larceny or embezzlement committed by said employees, or any one of them, named upon the above mentioned schedule or any additions thereto between the original date of this bond and the time to which it shall have been continued.

That the employer shall immediately give the company notice in writing, by a registered letter, addressed to the president of the company, , of the discovery of any act which may be made the basis of any claim hereunder, and shall file with the company its itemized claim hereunder, at employer's cost and expense, with full particulars thereof, duly sworn to, within three (3) months thereafter, and any claim which shall not be filed by the employer with the company within six (6) months after the expiration or cancellation of this bond, or within six (6) months after the employee therein concerned shall have ceased to be in the employer's service, shall not be payable hereunder. And upon the making of such claims, this bond shall wholly cease and determine as regards any liability for any act or acts of the employee, committed subsequent to the discovery of such loss.

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

That the employer shall at once notify the company on becoming aware that any of the employees is engaging in speculation, gambling, or in any disreputable or unlawful habits or pursuits.

That if the employer shall at any time hold concurrently with this bond, or represent to the company in any statement or declaration to it, that said employer does or will at any time hold concurrently with this bond, any other bond or guarantee of security from or on behalf of the employees, or any of them, the employer shall be entitled, in the event of loss as hereinbefore stated, to claim hereunder only such proportion of the loss as the amount covered by this bond bears to the whole amount of security carried, or so stated as carried or to be carried on the employees' behalf, whether the employer shall be able to reimburse itself from such other bond or guarantee so carried, or stated to be carried or not, or whether the same has been allowed to lapse or not.

That if the company shall so elect, this bond may be cancelled at any time with respect to any one or all of said employees by giving one month's notice to the employer. At the expiration of said period of one month, the company will, upon demand, refund the premium paid, less a pro rata part thereof, for the time this bond shall have been in force, remaining liable for any act or acts covered by this bond, which may have been committed by the said employees or any of them up to the date of such determination, and discovered and notified to the company within the limit of time hereinbefore provided for.

That the employer shall, if so required by the company, duly apply for a warrant for the arrest of any of the employees for any act or acts of larceny or embezzlement, which is the basis of any claim hereunder, giving all the aid and information in its power (at the cost and expense of the company) to bring the said employees to justice or to aid the company to sue for or obtain reimbursement from the employee or employees, his or their estate, or any other person, of the moneys which the company has paid or become liable to pay by virtue of this bond.

That if the employer has entrusted or shall entrust any employee hereby bonded with money, securities, or other personal property, after having discovered any act of dishonesty, or condones any act for which the company may be liable hereunder, or makes any settlement with the said employee for any loss hereunder, without previous notice to and consent of the company thereto, this bond shall be null and void, and any wilful misstatement or suppression of facts in any claim made hereunder renders this bond void from the beginning.

That any suits at law or proceedings in equity brought against this bond, to recover any claim hereunder, must be instituted and process served upon the company within twelve calendar months next after the first notice of said claim is filed with the company.

That the company, upon the execution of this bond, shall not thereafter be responsible to the employer under any bond previously issued to the employer on behalf of said employees, and upon the issuance of any bond subsequent hereto upon said employees in favor of said employer, all responsibility hereunder shall cease and determine, it being mutually understood that it is the intention of this provision that but one (the last) bond shall be in force at one time, unless otherwise stipulated between the employer and the company, and the company shall in no event be liable in respect of any shortage existing at the commencement of this bond, or for funds or property used to make good the same.

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

That the employer shall have the right at any time during the currency of this bond, on giving notice to the company, or its duly authorized agent, in writing, and receiving acknowledgment thereof, to make such interchanges or substitutions among any of the employees, as may be found necessary, and to add to the employees on said schedule, on payment of extra premium therefor; such notices to set forth the names, locations, date of appointments, and amounts of security required of employees so substituted or added to said schedule.

And the company shall not be liable for other than acts of larceny or embezzlement of the employees named in said schedule or in said notices.

That if the employer be a corporation, the acts or knowledge of the president, treasurer, secretary, cashier, or any other officer or director of the corporation, shall be the acts or knowledge of the employer within the meaning hereof, even though such officer or director shall be in collusion with such employee or employees at the time of said act or knowledge.

That no one of the above conditions or provisions in this bond, shall be deemed to have been waived by or on behalf of the company, unless the waiver be in writing, over the signature of its president and secretary, and its seal thereto affixed.

In witness whereof the said company has caused this bond to be signed by its president and its secretary, and its corporate seal to be hereunto affixed this day of , A. D. 19 .

, President.
, Secretary.

SCHEDULE BOND NO.

Schedule of employees covered by attached Schedule Bond No. , in favor of for the year beginning , 19 , and ending , 19 .

Individual Bond No.	Date of Add.	NAME AND POSITION	LOCATION Add. Not.	Amount	Premium	Remarks	Expense	Date of Ded.	Returned Premium

SAMPLE FORM OF FRATERNAL ORDER BOND COVERING POSITION.

Agreement, made this day of in the year nineteen hundred and , between the Company, a corporation duly incorporated under the laws of the State of (hereinafter called the insurer), and the of , State of (hereinafter called the insured), a fraternal beneficial order.

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

Witnesseth: Whereas, the said has certain officers, each of whom has and may hereafter have from time to time in his hands and possession money, funds, securities and other personal property belonging to the insured, collected and received by such officers, severally, from members of the insured to be held and accounted for by each of them in accordance with the Constitution and By-Laws of the insured.

Now, therefore, in consideration of an annual premium, computed at an agreed rate, the insurer hereby covenants and agrees to and with the insured that it will, within ninety days next after claim and proof of loss verified by affidavit, as hereinafter provided, shall have been furnished the insurer at its Home Office in the city of , make good and reimburse to the insured any and all pecuniary loss sustained by the insured by reason of the fraud or dishonesty of the officers filling the positions mentioned in the schedule hereunto annexed (which has been filed with the insurer by the insured, and upon which the number and positions of said officers appear), or which may be added thereto as hereinafter provided in connection with their duties as such officers, as the case may be, and which shall have been committed at any time after the day of , 19 , as to the of the named in the list attached hereto, and marked "Schedule," and as to any new or additional official position at any time after such official position has been added to said schedule by the insurer, and prior to the day of 19 , as to all of said official positions and which said loss shall be discovered during such term, or within six months thereafter, or within six months from the death, dismissal or retirement of such officers from such positions, within the period of this bond, whichever shall first happen.

Provided, however, that the liability of the insurer on account of any official position shall in no case exceed the amount specified in said schedule for said position, and therein set opposite the number and official position.

Provided, also, that on the discovery of any such fraud or dishonesty as aforesaid on the part of any said officers whose positions are set forth in said schedule, the insured shall give notice thereof to the insurer within ten days after such discovery, together with the name, official position and address of the official who has committed the same, and full particulars of any claim made hereunder shall be given in writing addressed to the insurer, at its Home Office in the city of , within ninety days after such discovery, as aforesaid. And failure to give such ten days' notice, or to furnish such particulars within said ninety days, shall relieve the insurer from all liability hereunder on account of the officer causing such loss.

Provided, First. That the insurer shall be entitled to call for such reasonable particulars and proofs of loss as may be required by the insurer, and to have the said particulars, or any of them, verified by affidavit.

Second. That the insurer shall not be liable for any loss occasioned by any officer filling a position unless proof of such loss be filed with the insurer, at its Home Office in the city of , within nine months from the expiration of this agreement.

Third. That should any of said officers filling a position become guilty of an offense covered by this agreement, the insured will immediately, on being requested by the insurer to do so, lay information before a proper officer, covering the facts, and verify the same as required by law, and furnish the insurer every aid and assistance, not pecuniary, capable of being rendered by the insured,

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

its agents and officers, which will aid in bringing the party promptly to justice, and such action, when required of the insured, shall be a condition precedent to recovery under this agreement.

Fourth. That this agreement will become void as to any claim for which the insurer is liable hereunder if the insured shall fail to notify the insurer of the occurrence of any act for which claim shall be made within ten days after the discovery of same, as hereinbefore provided.

Fifth. That this agreement may be renewed and continued in full force from year to year by continuation certificate signed by the insurer.

Sixth. The insurer, upon giving thirty days' notice in writing to the insured, may at any time cancel this agreement and terminate its responsibility thereunder in respect of the acts of any official done after said termination. If the insurer subsequently pay any loss thereunder in respect of any such official, the amount of premium paid as to such official shall be deemed to have been fully earned and to belong to the insurer. Otherwise the insurer shall, upon demand, return to the insured a pro rata portion of the premium.

In witness whereof the insurer has caused this agreement to be sealed with its common and corporate seal, duly attested by its president and its secretary, this day of ,

19 .

Company,

, President.

, Secretary.

SAMPLE FORM OF INDIVIDUAL FIDELITY BANK BOND.

Whereas, , herein called the "employee," has been appointed to the position of in the service of a corporation of the State of , hereinafter called the "employer;" and has been required to furnish bond for his honesty in the performance of his duties in said position, and

Whereas, the employer has delivered to the Company, a corporation of the State of (hereinafter called the "company"), certain statements and certificates in writing relative to the duties, responsibilities and accounts of the employee, the manner of conducting the business of the employer, and the manner of checking and verifying the accounts of said employee and other matters connected with the issuance of this bond, which, together with any other statements, certificates and agreements in writing, made, or to be made by the employer, and required by or lodged with the company, do and shall, constitute the basis of this contract, or any continuation thereof, and are hereby made a part hereof the same as if herein incorporated.

And it is hereby declared, that any statements, certificates or agreements made in writing by the president, secretary, treasurer, cashier, or any other officer or director of the employer, shall be considered the statements, certificates or agreements of the employer within the meaning hereof.

Now, therefore, in consideration of the sum of dollars (\$) paid as a premium for the period from to at twelve o'clock noon, and upon the faith of the aforesaid state-

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

ments, certificates and agreements of the employer, the truth of which said employer does hereby warrant.

It is hereby agreed and declared, that, subject to the warranties hereinbefore mentioned, and the provisions, conditions and agreements herein contained, the truth of which warranties, and the fulfillment of which provisions and agreements shall be conditions precedent to the right of the employer to recover under this bond, the company shall, at the expiration of three months next after satisfactory proof of a pecuniary loss, as hereinafter mentioned, reimburse the employer to the extent of the sum of dollars (\$), and no further, for such pecuniary loss the employer shall have sustained by any act of personal dishonesty on the part of the employee in the performance of the duties of the office or position in the service of the employer hereinbefore referred to as the same have been or may hereafter be stated in writing by the employer to the company, and occurring during the continuance of this bond, and discovered during said continuance or within six months after the death, resignation or removal of the employee from the service of the employer, when the same occurs prior to the expiration of this bond.

It is further agreed and declared, that this bond may be continued from year to year, at the option of the employer, at the same or an agreed premium rate, so long as the company shall consent to receive the same, in which event the company shall remain liable for any act of personal dishonesty committed by the employee between the original date of this bond and the time to which it shall have been continued. Provided, that the liability of the company as surety for the employee to the employer shall not exceed the amount above written, whether the loss shall occur during the term above named, or during any continuation or continuations thereof, or partly during the said term and partly during said continuation or continuations.

That the employer shall immediately give the company notice in writing, by a registered letter, addressed to the president of the company, , of the discovery of any act which may be made the basis of any claim hereunder, and shall file with the company its itemized claim hereunder at its own cost and expense, with full particulars thereof, duly sworn to, within three (3) months thereafter. And any claim which shall not be filed by the employer with the company within six (6) months after the expiration or cancellation of this bond, or within six (6) months after the employee shall have ceased to be in the employer's service, shall not be payable hereunder. And upon the making of such claim, this bond shall wholly cease and determine as regards any liability for any act or acts of the employee, committed subsequent to the discovery of such loss, and this bond shall be surrendered to the company on payment of such claim.

That the employer shall at once notify the company on becoming aware that the employee is engaging in speculation, gambling, or in any disreputable or unlawful habits or pursuits.

That if the employer shall at any time hold concurrently with this bond, or represent to the company in any statement or declaration to it, that he does or will at any time hold concurrently with this bond, any other bond or guarantee of security from or on behalf of the employee, the employer shall be entitled, in the event of loss as hereinbefore stated, to claim hereunder only such proportion of the loss as the amount covered by this bond bears to the whole amount of security carried, or so stated as carried or to be carried on the employee's behalf, whether the employer shall

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be able to reimburse itself from such other bond or guarantee so carried, or stated to be carried or not, or whether the same has been allowed to lapse or not.

That if the company shall so elect, this bond may be cancelled at any time by giving one month's notice to the employer, and refunding the premium paid, less a pro rata part thereof, for the time this bond shall have been in force, remaining liable for any act or acts covered by this bond, which may have been committed by the said employee, up to the date of such determination, and discovered and notified to the company within the limit of time hereinbefore provided for.

That the employer shall, if so required by the company, duly apply for a warrant for the arrest of the employee for any criminal act which is the basis of any claim hereunder, giving all the aid and information in its power (at the cost and expense of the company) to bring the said employee to justice or to aid the company to sue for or obtain reimbursement from the employee, his estate, or a third person, of the moneys which the company has paid or become liable to pay by virtue of this bond.

That if the employer shall entrust the employee with money, securities, or other personal property, after having discovered any act of dishonesty or shall condone any act for which the company may be liable hereunder, or shall make any settlement with the employee for any loss hereunder, without previous notice to and consent of the company thereto, this bond shall be null and void, and any wilful misstatement or suppression of facts in any claim made hereunder renders this bond void from the beginning.

That any suits at law or proceedings in equity brought against this bond, to recover any claim hereunder, must be instituted and process served upon the company within twelve calendar months next after the first notice of said claim is filed with the company.

That the company, upon the execution of this bond, shall not thereafter be responsible to the employer under any bond previously issued to the employer on behalf of said employee, and upon the issuance of any bond subsequent hereto upon said employee in favor of said employer, all responsibility hereunder shall cease and determine, it being mutually understood that it is the intention of this provision that but one (the last) bond shall be in force at one time, unless otherwise stipulated between the employer and the company, and the company shall in no event be liable in respect of any shortage existing at the commencement of this bond or for funds or property used to make good the same.

That the acts or knowledge of the president, treasurer, secretary, cashier, or any other officer or director of the corporation, shall be the acts or knowledge of the employer within the meaning hereof, even though such officer or director shall be in collusion with the employee at the time of such act or knowledge.

That no one of the above conditions or provisions contained in this bond shall be deemed to have been waived by or on behalf of the company, unless the waiver be in writing, over the signature of its president and secretary, and its seal thereto affixed.

In witness whereof, the said (the employee) has hereunto set his hand and seal, and the said company has caused this bond to be signed by its president and its secretary, and its corporate seal to be hereto affixed this day of in the year . (Signature.)

Signed, sealed and delivered by the said employee in the presence of . (Signature.)

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**SAMPLE FORM OF BANK FIDELITY SCHEDULE
BOND.**

Whereas, (hereinafter called the "employer"), has employed or intends to employ certain persons in the capacity of , (which persons are hereinafter called the "employees"), and are named on a schedule hereto attached and made a part hereof; and

Whereas, the employer has delivered to the Company, a corporation of the State of (hereinafter called the "company"), certain statements and certificates in writing relative to the duties, responsibilities and accounts of the employees, the manner of conducting the business of employer, and the manner of checking and verifying the accounts of said employees and other matters connected with the issuance of this bond, which, together with any other statements, certificates and agreements in writing, made, or to be made by the employer, and required by or lodged with the company, do and shall, constitute the basis of this contract, or any continuation thereof, and are hereby made a part hereof the same as if herein incorporated.

And it is hereby declared, that any statements, certificates or agreements made in writing by the president, secretary, treasurer, cashier, or any other officer or director of the employer, shall be considered the statements, certificates or agreements of the employer within the meaning hereof.

Now, therefore, in consideration of the sum of dollars (\$) paid as a premium for the period from to at twelve o'clock noon, and upon the faith of the aforesaid statements, certificates and agreements of the employer, the truth of which said employer does hereby warrant.

It is hereby agreed and declared, that, subject to the warranties hereinbefore mentioned, and the provisions, conditions and agreements herein contained, the truth of which warranties, and the fulfillment of which provisions and agreements shall be conditions precedent to the right of the employer to recover under this bond, the company shall, at the expiration of three months next after satisfactory proof of a pecuniary loss, as hereinafter mentioned, reimburse the employer for such pecuniary loss as the employer shall have sustained in money, securities or other personal property by reason of the personal dishonesty of any of the employees named upon the schedule hereto attached or any additions thereto made as hereinafter provided in the performance of the duties hereinbefore referred to, as the same have been or may hereafter be stated in writing by the employer to the company, and occurring during the continuance of this bond and discovered during the said continuance or within six months thereafter, or, in case of the death, resignation or removal of the employee prior to the expiration of this bond, within six months after such death, resignation or removal.

Provided, that the liability of the company as surety for the employees to the employer shall not exceed the sum last written opposite their names on said schedule or additions thereto, whether the loss shall occur during the term above named, or during any continuation or continuations thereof, or partly during the said term and partly during said continuation or continuations.

It is further agreed and declared, that this bond may be continued from year to year, at the option of the employer, at the same or an agreed premium rate, so long as the company shall

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consent to receive the same, in which event the company shall remain liable for any act of personal dishonesty committed by said employees or any one of them named upon the above mentioned schedule or any additions thereto between the original date of this bond and the time to which it shall have been continued.

That the employer shall immediately give the company notice in writing, by a registered letter, addressed to the president of the company, , of the discovery of any act which may be made the basis of any claim hereunder, and shall file with the company its itemized claim hereunder, at employer's cost and expense, with full particulars thereof, duly sworn to within three (3) months thereafter. And any claim which shall not be filed by the employer with the company within six (6) months after the expiration or cancellation of this bond, or within six (6) months after the employee therein concerned shall have ceased to be in the employer's service, shall not be payable hereunder. And upon the making of such claims, this bond shall wholly cease and determine as regards any liability for any act or acts of the employee, committed subsequent to the discovery of such loss, and this bond shall be surrendered to the company on payment of such claim.

That the employer shall at once notify the company on becoming aware that any of the employees is engaging in speculation, gambling, or in any disreputable or unlawful habits or pursuits.

That if the employer shall at any time hold concurrently with this bond, or represent to the company in any statement or declaration to it, that said employer does or will at any time hold concurrently with this bond, any other bond or guarantee of security from or on behalf of the employees, or any of them, the employer shall be entitled, in the event of loss as hereinbefore stated, to claim hereunder only such proportion of the loss as the amount covered by this bond bears to the whole amount of security carried, or so stated as carried or to be carried on the employees' behalf, whether the employer shall be able to reimburse itself from such other bond or guarantee so carried, or so stated to be carried or not, or whether the same has been allowed to lapse or not.

That if the company shall so elect, this bond may be cancelled at any time with respect to any one or all of said employees by giving one month's notice to the employer and refunding the premium paid, less a pro rata part thereof, for the time this bond shall have been in force, remaining liable for any act or acts covered by this bond, which may have been committed by the said employees or any of them up to the date of such determination, and discovered and notified to the company within the limit of time hereinbefore provided for.

That the employer shall, if so required by the company, duly apply for a warrant for the arrest of any of the employees for any criminal act, which is the basis of any claim hereunder, giving all the aid and information in its power (at the cost and expense of the company) to bring the said employee, to justice or to aid the company to sue for or obtain reimbursement from the said employee, or employees, his or their estate, or any other person, of the moneys which the company has paid or become liable to pay, by virtue of this bond.

That if the employer has entrusted or shall entrust any employee hereby bonded with money, securities, or other personal property, after having discovered any act of dishonesty, or condones any act for which the company may be liable hereunder, or makes any settlement with the said employee for any loss hereunder,

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without previous notice to and consent of the company thereto, this bond shall be null and void, and any wilful misstatement or suppression of facts in any claim made hereunder renders this bond void from the beginning.

That any suits at law or proceedings in equity brought against this bond, to recover any claim hereunder, must be instituted and process served upon the company within twelve calendar months next after the first notice of said claim is filed with the company.

That the company, upon the execution of this bond, shall not thereafter be responsible to the employer under any bond previously issued to the employer on behalf of said employees, and upon the issuance of any bond subsequent hereto upon said employees in favor of said employer, all responsibility hereunder shall cease and determine, it being mutually understood that it is the intention of this provision that but one (the last) bond shall be in force at one time, unless otherwise stipulated between the employer and the company, and the company shall in no event be liable in respect of any shortage existing at the commencement of this bond or for funds or property used to make good the same.

That the employer shall have the right at any time during the currency of this bond, on giving notice to the company, or its duly authorized agent, in writing, and receiving acknowledgment thereof, to make such interchanges or substitutions among any of the employees, as may be found necessary, and to add to the employees on said schedule, on payment of extra premium therefor; such notices to set forth the names, locations, date of appointments, and amounts of security required of employees so substituted or added to said schedule.

And the company shall not be liable for other than acts of personal dishonesty of the employees named in said schedule or in said notices.

That the acts or knowledge of the president, treasurer, secretary, cashier, or any other officer or director of the corporation, shall be the acts or knowledge of the employer within the meaning hereof, even though such officer or director shall be in collusion with such employee or employees at the time of said act or knowledge.

That no one of the above conditions or provisions in this bond shall be deemed to have been waived by, or on behalf of the company, unless the waiver be in writing, over the signature of its president and secretary, and its seal thereto affixed.

In witness whereof the said company has caused this bond to be signed by its president and its secretary, and its corporate seal to be hereunto affixed this day of , A. D. 19 .

(Signature.)

(Schedule of employees, with amounts bonded attached.)

THE AMERICAN BANKERS' ASSOCIATION STANDARD FORM BANK FIDELITY BOND.

(Copyrighted 1899.)

This bond, witnesseth: Whereas, (hereinafter designated the "employer") has appointed to positions in the service of the employer, that certain person or those certain persons (hereinafter designated "employees") whose name or names appear in the

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schedule hereto attached, which is hereby referred to and made a part of this bond, in respect of whom the employer requires indemnity of the kind and nature hereinafter provided; and

Whereas, the employer may hereafter require like indemnity in respect of other persons (hereinafter included in the designation "employees") in the employer's service:

Now therefore, for and in consideration of a stipulated premium, paid or agreed to be paid by the employer, the _____ company, a corporation existing under and by virtue of the laws of the State of _____ (hereinafter designated the "company") hereby covenants and agrees to and with the employer that it will, at the expiration of three months after proofs of loss shall have been furnished to the company, pay to the employer the amount of any loss or damage that shall happen to the employer in respect of any funds, property or estate belonging to or in the custody of the employer, through the dishonesty of any of the employees (or through any act of omission or commission of any of the employees), done or omitted in bad faith, and not through mere negligence, incompetency or any error of judgment and whether such dishonesty or such act of omission or commission occurs in the performance of any duty or trust specially assigned to such employee or occurs otherwise; subject, however, to the following provisions and agreements:

1. There shall be no liability hereunder on the part of the company unless the act or default through which such loss may happen shall, in respect of the employees originally named in the schedule, occur on or after the _____ day of _____ A. D. 19____, and shall in respect of any employee hereafter added to the schedule by notice and acceptance as hereinafter provided, occur on or after the date upon which his or her name shall have been added to the schedule, and shall, in respect of all employees, occur prior to or on the _____ day of _____ A. D. 19____, or prior to or on any other date to which this bond may be continued.

2. There shall be no liability hereunder on the part of the company unless such loss or damage shall be discovered during such designated term, or within one year after the final expiry (as determined by the term herein specified and any and all continuances) of this bond, and within one year after the cancellation or termination of this bond, or of any engagement hereunder in respect of the employee causing a loss.

3. The company's liability on account of any employee shall in no case exceed the amount set opposite his or her name in the schedule hereto attached, as such name and amount now appear or as they may be hereafter added to or changed upon the schedule in accordance with the provisions therefor hereinafter set forth.

4. If the employer requires indemnity in respect of any employee other than those named in the schedule hereto attached, or if the employer requires indemnity in respect of any employee in the schedule named in an amount larger or smaller than therein specified, the employer shall give to the company written notice of the name of such employee and the amount for which the employer may desire the company to become bound in respect of such employee, and thereupon the company, if it elects to become bond for such employee in the required amount, shall execute and deliver to the employer its written acceptance, specifying the amount for which and the date from which the company shall be bound in respect of such newly designated employee, and specifying in respect of a change in the amount of indemnity, the new amount and the date from which it shall be effective, it being agreed and understood that thereby such name or names and specifications

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shall be deemed to be added to the schedule hereto attached, and the obligations of the employer and the company in respect thereof shall be subject to all the provisions herein contained and in every way as though such name and specifications had formed part of the original schedule.

5. Whatever number of engagements may be made by the company with the employer in respect of any employee, either by way of separate bonds, or by acceptances as herein provided, or by continuances as herein provided, the aggregate liability of the company for all losses under all its engagements shall not exceed a sum equal to the amount of the largest of the engagements under which such losses occurred, nor shall the company be liable under any specific engagement for any loss occurring under any other engagement.

6. The company shall in no event be liable for any matter or thing done by any employee after definitely leaving the service of the employer, nor for any act or default of an employee occurring after a loss in respect of such employee shall have come to the knowledge of the employer.

7. The company shall be primarily responsible to the limit of its bond in respect of any employee, for any loss sustained by the employer through the act or default of such employee without regard to any other security or indemnity held by the employer. If the company shall pay the entire loss of the employer in respect of any employee, it shall be entitled to receive an assignment of any other security or indemnity which may be held by the employer, with authority to seek contribution therefrom. If the company shall pay only a portion of the loss of the employer, it shall be entitled to receive an assignment of only such securities and indemnity as may remain after the employer has been fully indemnified, with authority to seek contribution therefrom. Nothing herein shall be construed to authorize the company to defer payment of any loss to the limit of its bond pending realization upon other security or indemnity or pending any adjustment of rights respecting the same.

8. The employer may, at any time, transfer any and every employee for whom the company is, or may become, during the continuance of this bond, bound hereunder, from one position to another, and shift any employee about at pleasure without notice to the company, and the company shall be and remains liable to the employer for any loss hereunder as fully and to the same extent as if no transfers had been made.

9. The company shall not be relieved from liability by reason of any employee being required to perform varied and different and inconsistent duties permanently or temporarily without notice to the company, and whether or not his or her compensation be at any time increased or diminished.

10. The company shall not be liable to the employer for any failure, neglect or refusal of any employee to repay to the employer any debt for money legitimately borrowed.

11. The employer warrants that the following statements are true:

(a) Each employee named in the schedule has, while in the service of the employer, discharged his or her respective duties in good faith (mere negligence or error of judgment not being considered) and with honesty, so far as the employer has knowledge.

(b) There is at present, so far as the employer has knowledge, no shortage in the accounts of any employee bonded hereunder, and no misappropriation by any such employee of any funds or other property belonging to, or in the custody of, the employer.

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(c) In so far as the employer has knowledge, no one of said employees habitually gambles, uses intoxicating liquors to excess, frequents houses of ill-fame, or is a spendthrift living beyond his or her means.

(d) That the written statements made to the company by the employer, regarding the indebtedness to the employer of the several employees named in the schedule, truthfully and correctly show the amounts of indebtedness of each employee to the employer at the time of making such statements, so far as the employer has knowledge. A copy of said statements, certified by the company, is delivered to the employer with this bond, and receipt of same is hereby acknowledged by the employer.

In case of the breach of any of the foregoing warranties in respect of any employee, then this bond shall be void in respect of such employee only, and the company shall be relieved from all liability in respect of such employee .

12. The employer further covenants and agrees that the employer will not at any time give the company notice of the appointment of, or request the company to become bound hereunder, in respect of, or to renew or continue this bond or any engagement hereunder in respect of any employee who has to the knowledge of the employer, ever been guilty of dishonesty, or who, to the knowledge of the employer habitually gambles, uses intoxicating liquors to excess, frequents houses of ill-fame, or is a spendthrift living beyond his or her means; and that on the notice given by the employer to the company of the appointment of any such new employee, and upon the request for any renewal or continuance of this bond, or any engagement hereunder, the employer will, upon request of the company, state truthfully, in writing, the amount, if any, which such employee or employees may, to the knowledge of the employer then owe the latter by overdraft, promissory note, as endorser or otherwise; and any breach of this covenant and agreement on the part of the employer shall render any such acceptance, renewal or continuance executed by the company in behalf of any and every such employee void, and relieve the company from all liability on account of every such employee.

A copy of every such statement so made by the employer to the company regarding the indebtedness of any employee, shall be certified by the company and delivered to the employer with the company's acceptance of the risk or renewal of this bond.

13. The employer further covenants and agrees that if at any time during the term for which this bond is written, or during any continuance hereof, there shall come to the knowledge of the employer the fact that any employee for whom the company may be bound under this bond, is dishonest, or has in bad faith and not through mere negligence or error of judgment, done or neglected to do any matter or thing, or that any such employee habitually gambles, uses intoxicating liquors to excess, frequents houses of ill-fame, or is a spendthrift living beyond his or her means, the employer shall promptly notify the company of such fact, and the failure so to do shall relieve the company from all liability on account of such employee, in respect of loss or damage thereafter arising.

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14. The company, upon giving fifteen days notice in writing to the employer, may at any time cancel this bond and terminate its responsibility hereunder in respect of the acts of any employee done after the expiration of the fifteen days from the receipt of such notice by the employer. If the company subsequently pay any loss hereunder in respect of any such employee the amount of premium paid as to such employee shall be held to have been fully earned and to belong to the company. Otherwise the company shall, upon demand return to the employer a pro rata portion of the premium.

In the event of the cancellation of this bond by the company in respect of any employee, the employer may, by notice in writing to the company, cancel the bond in respect of all other employees, and such cancellation by the employer shall go into effect at the same time, and be subject to all the conditions relative to premiums, as the cancellation by the company.

15. Upon the death of an employee, or upon his resignation or discharge from the service of the employer, the company, if not more than the first annual payment shall have been paid, shall be deemed to have earned the whole of such premium; but where such occurrence takes place after the second annual premium shall have been paid or become due, the employer shall be entitled to a pro rata portion of the premium under the same conditions as though the cancellation had taken place at the instance of the company.

16. The employer is directly liable to the company for all premiums provided for herein, and the same shall be payable to the company, or to the person by whom this bond is delivered to the employer, upon reasonable demand in writing. If not so paid, the company may at once terminate this bond by notice to the employer, and upon receipt of such notice by the employer, all liability of the company for the acts of any and every employee, committed during the time for which the company shall have received no premium, shall immediately cease and determine.

17. The employer shall whenever required by the company, give all information within the employer's knowledge, or which can be obtained from the employer's books or records, and shall render all assistance (not pecuniary) which will in any way aid in the apprehension, arrest or prosecution of any employee, for any criminal offense committed by such employee involving the liability of the company, and in like manner shall aid and assist the company in suing for or obtaining reimbursement from such employee or from the employee's estate or from other sources any moneys which the company may have paid or become liable to pay under this bond on account of such employee.

18. The employer shall give notice in writing to the company promptly after knowledge thereof by the employer of any loss in respect of which liability of the company is claimed, and shall within six months thereafter, furnish the company proof of such loss, and in default thereof, the liability of the company therefor shall terminate.

19. All notices to be given by the employer to the company shall be by registered mail addressed to the company at its principal

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office in the city of _____, and all notices to be given by the company to the employer shall be by registered mail addressed to the principal office of the employer.

20. In case the employer be a corporation, the knowledge of its board of directors or trustees, or of any executive officer, such as the president, vice-president, cashier or assistant cashier of a bank, and corresponding officers of a savings bank or trust company, who shall receive a salary from the corporation and shall be active in its affairs, shall be deemed to be the knowledge of the employer, excepting that the knowledge of any such directors, trustees, or officers in collusion with the employee through whose act the loss may arise, shall not charge the corporation.

21. So long as the company and the employer agree so to do, this bond may be continued in force from year to year, and in case of such continuance, the company's liability in respect of the employees then in the employer's service and for whom the company may then be bound hereunder shall be the same as if this instrument had been originally written for a term including the period of such continuance.

22. No action, suit or proceeding at law or in equity shall be had or maintained on this bond unless the same shall be commenced within one year from the time of making claim upon the company for the loss in respect of which such action, suit or proceeding is based, or, in the event that an action, suit or proceeding so commenced shall be discontinued or dismissed without a trial upon the merits unless a further action, suit or proceeding shall be commenced within thirty days after such discontinuance or dismissal.

23. None of the conditions or provisions contained in this bond shall be deemed to have been waived by or on behalf of the company unless the waiver be clearly expressed in writing over the signature of its president or vice-president.

In witness whereof, the company has caused this instrument to be signed by its _____ president, and its corporate seal to be hereto affixed, duly attested by its _____ secretary, the _____ day of _____, A. D. 19 _____.

_____, President.

_____, Secretary.

SAMPLE APPLICATION FOR CONTRACT BONDS.

WORDING CHANGED SLIGHTLY WHEN FOR INDIVIDUAL, FIRM OR CORPORATION.

Applicants must give full and explicit data under the following heads, and must supply copies of specifications and contract for filing with this application. The information asked for is essential to the proper preparation of the bond and the company's judgment of the case, hence care in answering will expedite the issuance of the bond.

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1. Full name of applicant Age 2. Residence
3. Business address 4. Amount of bond required, \$
5. To whom given? Give full name. (If to a corporation, give exact corporate title, also the business address of individual, firm or corporation)
6. Nature of contract 7. Name and address of architect or engineer in charge
8. Amount architect's or engineer's estimate of the cost of the work 9. Has application for the bond in question been made to another company? If so, state particulars
10. Contract price \$ 11. If contract is per unit of measure, give also probable total of contract, \$
12. Other bidders on above contract, including highest and lowest. Name. Address. Bid.

STATEMENT OF ASSETS AND LIABILITIES.

ASSETS.			LIABILITIES.		
Cash on hand					
Cash in Bank					
Stocks, Bonds, etc., Mkt. Value (Enumerate)			Borrowed or due on Stocks, Bonds, etc.		
Real Estate (Give location and description of each piece)			Borrowed or due on Real Estate		
Piece No. 1			Piece No. 1		
" " 2			" " 2		
" " 3			" " 3		
" " 4			" " 4		
" " 5			" " 5		
Plant consisting of			Incumbrance on Plant		
Stock of Supplies			Notes Payable		
Notes Receivable			Accounts Payable		
Accounts Receivable			Other Liabilities		
Other Assets					
TOTAL ASSETS			TOTAL LIABILITIES		

13. Date work is to be commenced 14. Date work is to be completed
15. Penalty for non-completion at above date 16. Premium for completion before above date
17. Payments 18. Percentage reserved from payments until completion
19. Will bond continue in force after work is completed? 20. For what period?
- For what purpose? 21. Other features of contract
22. What does your plant consist of? (a) When was it purchased? (b) What is its present condition? (c) Is any further plant required at this time?

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23. Are you in the habit of borrowing money from your bank? If so, please state amount of loans now outstanding, \$.
 24. How long have you been engaged in this line of work?
 25. Enumerate contracts you have completed stating the amount of each contract . 26. Enumerate contracts you have under way, giving present status of each name of your surety.

UNCOMPLETED CONTRACTS.	PERCENTAGE UNCOMPLETED AND TOTAL AMOUNT OF CONTRACT.	NAME OF SURETY.
1.....		
2.....		
3.....		
4.....		
5.....		
6.....		
7.....		
8.....		

27. Amount of liability as endorser or surety for others. \$.
 28. Amount of life insurance carried. (Give names of companies and amounts in each.) \$. 29. Payable to
 30. Do you carry liability insurance? Give limit of liability \$ \$. 31. Give name of companies and date of expiration . 32. Amount of builders' risk insurance carried, or will carry on this work. (Give names of companies and amounts in each.) \$. 33. Refer to: Name of bank , Town , State .

REFERENCES.

Of persons for whom you have completed contracts: Name.
 Occupation. P. O. Address.

READ CAREFULLY.

I certify that the answers given to the foregoing interrogations are true, and in consideration of the company consenting or agreeing to execute or guarantee the bond herein applied for I do hereby covenant, promise and agree to pay the premium or fees herein agreed upon, to wit: dollars per annum in advance, made by the company, for executing said bond and continuing the same, until said company shall, in the manner provided by law, be discharged or released from any and all liability and responsibility upon and from said bond and all matters arising therefrom, and proper legal evidence of such discharge or release be served on the company, to pay the said company any and

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all loss, costs, charges, suits, damages, counsel fees, expenses, of whatever kind or nature which said company shall or may, for any cause, at any time, sustain, or incur, or be put to, for, or by reason or in consequence of said company having entered into or executed said bond. And I do further agree, upon notice to or discovery by the company, of my failure to comply with any provision of the contract, for the completion of which the said company has issued the bond herein applied for, that immediately upon said notice or discovery, the right of possession of such plant as I may own or have upon said work, shall vest in the said company, so that it may use same in the prosecution of said contract to completion, and the right to the possession of such plant shall not be considered as waived by any delay on the part of the said company, to exercise said right after the time of its vesting. I hereby further agree for myself, my heirs, executors, and administrators, successors and assigns, to accept the vouchers or other evidence of any loss paid by the said company, under the aforesaid obligation, together with vouchers, or other evidence of payment, of all cost and expenses whatever incurred by said company, in adjusting such loss, or in completing said contract, as conclusive evidence against me and my estate of the fact and extent of my liability, under said obligation to the said company.

And I do further agree in the event of any breach or default on my part of the provisions of the contract hereinbefore mentioned, that the company, as surety upon the aforesaid bond, shall be subrogated to all my rights and properties as principal in said contract, and that deferred payments, and any and all moneys and properties that may be due and payable to me, at the time of such breach or default, or that may thereafter become due and payable to me, on account of said contract, shall be credited upon any claim that may be made upon the company, under the bond above mentioned.

In testimony whereof, I have hereunto subscribed my name this
day of , 19 .

Witness:

Contractor.

SAMPLE FORM NO. 1 FOR CONTRACT CON- STRUCTURAL BONDS.

(CHANGED SLIGHTLY IN WORDING WHEN FOR INDIVIDUALS, FIRMS
OR CORPORATIONS.)

Know all men by these presents, that of (hereinafter called the principals), and the company, a corporation under and by virtue of the laws of the State of , having an office and usual place of business at city, state of (hereinafter called the surety), are held and firmly bound unto of (hereinafter called the obligee), in the sum of dollars, for the payment of which said sum of money the said principals bind themselves, their heirs, executors, administrators, successors and assigns, and the said surety binds itself, its successors and assigns, jointly and severally, firmly by these presents.

Whereas, said principals have entered into a written contract, with said obligee, dated the day of , 19 , for

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according to the terms and conditions of said contract, a copy of which contract is made part hereof.

Now therefore the condition of this obligation is such that if the said principals shall faithfully perform said contract according to the terms, covenants and conditions thereof (except as hereinafter provided), then this obligation shall be void; otherwise to remain in full force and effect.

This bond is executed by the surety upon the following express conditions, which shall be conditions precedent to the right of the obligee to recover hereunder:

The obligee shall keep, do and perform each and every, all and singular, the matters and things set forth and specified in said contract, to be by the obligee kept, done and performed exclusively at the times and in the manner as in said contract specified.

The said surety shall be notified in writing of any act on the part of said principals or their agents or employees which may involve a loss for which the said surety is responsible hereunder, immediately after the occurrence of such act shall have come to the knowledge of said obligee or to any representative duly authorized by him to oversee the performance of said contract; and a registered letter mailed to the president of said surety at its office in _____ city, _____, shall be the notice required within the meaning of this bond.

If the said principals shall voluntarily abandon said contract, or be lawfully compelled by the obligee to cease operations thereunder by reason of their non-performance of any of its terms or conditions, then the surety shall have the right, in its option, to assume the said contract and to sublet or complete the same, and if said contract shall be assumed by the surety, then as such contract is duly performed any reserve, deferred payments and all other moneys provided by said contract to be paid to the principals shall be paid to the surety at the same time and under the same conditions as by the terms thereof, such moneys would have been paid to the principals had the contract been duly performed by them. And if said obligee shall complete or relet the said contract, then any forfeitures provided in said contract against the principals shall not be operative as against the surety, but all reserves, deferred payments and all other moneys provided in said contract which would have been paid to the principals had they completed the contract in accordance with the terms, shall be credited upon any claim the said obligee may make upon said surety.

The surety shall not be liable under this bond to any one except the obligee, but it is agreed that the obligee in estimating his damage, may include the claims of mechanics and material men, arising out of the performance of the contract, and paid by him only when the same, by the statutes of the state where the contract is to be performed, are valid liens against his property.

The said obligee shall retain the last payment and reserve due said principals until the complete performance by said principals of all the terms, covenants and conditions of the contract on said principals' part to be performed and until the expiration of the time within which liens or notices of liens may be filed, by reason of anything done in or towards the performance of said contract, and until the cancellation and discharge of such liens, if any, and said surety shall be notified in writing before said last payment shall be made or said reserve paid.

The surety shall not be liable for any damage resulting from an act of God, or from mob, riot, civil commotion or a public enemy, or from so-called strikes or labor difficulties, or from fire, light-

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ning, tornado or cyclone, and the surety shall not be liable for the reconstruction or repair of any work or materials damaged or destroyed by said causes or any of them, and the said surety must be notified in writing and its written consent secured to any change or alterations made in the original plans or specifications by the said obligee.

This bond does not cover any provisions of the contract or specifications respecting guarantees of efficiency or wearing qualities or for maintenance or repairs, nor does it obligate the surety to furnish any other bond covering such provisions of the contract or specifications.

That if the obligee shall at any time hold concurrently with this bond or represent to the surety in any statement or declaration to it, that, said obligee does or will at any time hold concurrently with this bond any other bond or guarantee of security received in connection with the contract covered by the above bond, the obligee shall be entitled, in the event of loss as hereinbefore stated, to claim hereunder only such proportion of the loss as the amount covered by this bond bears to the whole amount of the security carried, or so stated to be carried, covering the contract covered by the above bond, whether the obligee shall be able to reimburse himself from such other bonds or guarantee so carried or stated to be carried or not, or whether the same has been allowed to lapse or not.

That any suits at law or proceedings in equity brought on this bond to recover any claim hereunder must be instituted within six months after the first breach of said contract.

The said surety shall not be liable for an amount in excess of the penalty of this bond.

In testimony whereof, the said principals have hereunto set their hands and seals, and the said surety has caused this instrument of writing to be signed by its duly authorized officers, and its corporate seal to be hereunto affixed this day of , 19 .

(Signature.)

SAMPLE FORM NO. 2 CONTRACT CONSTRUCTIONAL BONDS.

Know all men by these presents, that we of (hereinafter called the principal), as principal, and the (hereinafter called the surety), as surety, are held and firmly bound unto of (hereinafter called the obligee), in the sum of dollars (\$), for the payment whereof said principal binds and said surety binds itself, firmly by these presents.

Whereas, said principal has entered into a written contract dated , 19 , with said obligee, for a copy of which is hereto annexed:

Now, therefore, the condition of this obligation is such, that if the principal shall indemnify the obligee against any loss or damage directly arising by reason of the failure of the principal to faithfully perform said contract, then this obligation shall be void; otherwise to remain in full force and effect.

Provided, however, and upon the express conditions:

First: That in the event of any default on the part of the principal in the performance of any of the terms, covenants or

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conditions of said contract, a written statement of the particular facts showing such default and the date thereof shall be delivered to the surety, by registered mail, at its office in the city of promptly and in no event less than ten (10) days after the obligee or his representative or the architect, if any, shall learn of such default: That the surety shall have the right within days after the receipt of such statement to proceed or procure others to proceed with the performance of such contract; shall also be subrogated to all of the rights of the principal; and any and all moneys or property that may at the time of such default be due, or that thereafter may become due, to the principal under said contract shall be credited upon any claim which the obligee may make upon the surety, and the surplus, if any, applied, as the surety may direct, to indemnifying it against any loss or damage by reason of its suretyship.

Second: That no claim, suit or action by reason of any default shall be brought against the principal or surety after the day of , 19 , nor shall recovery be had for damages accruing after that date; that service of writ or process commencing any such suit or action shall be made on or before that date; that the principal shall be made a party to any such suit or action, and be served with process commencing the same if can with reasonable diligence be found; that no judgment shall be rendered against the surety in excess of the penalty hereof.

Third: That the surety shall not be liable for any damages resulting from strikes or labor difficulties, or from mobs, riots, fire, the elements, or acts of God, or from injury to person; nor for the repair or reconstruction of any work or materials damaged or destroyed by any such causes; nor for the nonperformance of any guarantees of the efficiency or wearing qualities of any work done or materials furnished or the maintenance thereof or repairs thereto; nor for the furnishing of any bond or obligation other than this instrument; nor for damages caused by delay in finishing such contract in excess of per centum of the penalty of this instrument.

Fourth: That the obligee shall faithfully perform all the terms, covenants and conditions of such contract on the part of the obligee to be performed; and shall also retain that proportion, if any, which such contract specifies the obligee shall or may retain of the value of all work performed or materials furnished in the prosecution of such contract, not less, however, in any event, than per centum thereof, until the complete performance by the principal of all the terms, covenants and conditions of said contract on the principal's part to be performed: That the plans and specifications mentioned in such contract are not in any respect defective, and are and at all times will be kept adequate for the complete performance thereof; that no change shall be made in the plans and specifications which shall increase the amount to be paid the principal more than per centum of the penalty of this instrument, without the written consent of the surety.

Fifth: That no right of action shall accrue upon or by reason hereof, to or for the use or benefit of any one other than the obligee herein named; that the obligation of the surety is, and shall be construed strictly as, one of suretyship only, shall be executed by the principal before delivery, and shall not, nor shall any interest therein or right of action thereon, be assigned without the prior consent, in writing, of the surety.

Signed and sealed, this day of , 19 .
(Signature.)

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**SAMPLE FORM OF CONTRACTOR'S INDEMNITY
BOND.**

Know all men by these presents, That (hereinafter called the "obligors"), are held and firmly bound unto the company, a corporation of the state of (hereinafter called the "company"), in the sum of dollars (\$), lawful money of the United States of America, to be paid to the said company, its certain attorney, successors or assigns, to which payment, well and truly to be made, the said obligors bind themselves, their joint and several heirs, executors, administrators, successors and assigns, jointly and severally, firmly by these presents; signed, sealed and dated, this day of , A. D. 19 ;

Whereas, at the special instance and request of said obligors, and on the security hereof, the company has executed, or agreed to execute, a bond in the penal sum of dollars (\$), on behalf of (hereinafter called the "contractor"), in favor of (hereinafter called the "obligee"), dated the day of , 19 ; which said bond is made to form a part hereof, as fully and amply, to all intents and purposes, as if said bond was recited at length herein;

Now, therefore, the condition of the foregoing obligation is such if the above bounden obligors shall and do pay in advance, the premium or charge of dollars, made by the company for executing said bond and continuing the same, so long as the company's liability on the said bond or obligation shall continue, and the said liability upon the said bond or obligation shall continue so long as the above recited bond shall be in force and until the company shall be discharged or released from any further liability thereunder, and until sufficient official notice, in writing, of the termination of the said bond and the liability thereunder, shall be served upon the company, and shall hold and keep harmless the company from and against any and all loss, damages, costs, charges and expenses of whatever nature or kind which the company shall, or may, at any time, sustain, incur, or be put to, for, or by reason, or in consequence of the company having given and executed the said bond; also shall reimburse the company for any and all moneys, with interest, advanced or loaned by the company to the contractor for the purposes of said contract; also for all costs, counsel fees and expenses which it may incur in investigating any claim thereunder, or investigating any application for advances or loans, or in or about prosecuting or defending any action, suit, or other proceeding which may be commenced or prosecuted against said contractor, or against the company, upon the said bond or anywise in relation thereto, then this obligation to be void, otherwise to be and remain in full force and virtue;

It is understood and agreed that the liability of the said obligors shall not be changed or altered by reason of any modification made, either before or after execution by the parties thereto in any of the terms or conditions of the contract referred to in said bond, or in the plans or specifications, accompanying the said contract, or by reason of any extension of time given to complete the said contract, or by reason of any payment or advance being made to the contractor by the obligee before the same may be due, or by the assignment of said contract to the company; and it shall not be necessary to either notify the said obligors, or any one or either of them, or procure their assent to any of the foregoing; and the company is hereby authorized and empowered to advance or loan

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to the contractor any money or moneys which the company may see fit for the purposes of said contract, or to assent to any such modification or modifications in the said terms or conditions, or in the said plans and specifications, either before or after execution, or to any extension of time, or to any such payment or advance by the obligee, or to take an assignment of said contract without notice to the said obligors, or any one or either of them, or without procuring their assent thereto.

And it is further agreed, that any and all moneys expended in the completion of said contract by the company, or loaned or advanced, from time to time by the company to the contractor for the purposes of said contract, and all costs, counsel fees and expenses incurred by the company in relation thereto, unless repaid, with interest, by the contractor to the company when due, shall be conclusively presumed to be a loss under this bond for which the obligors shall be responsible, notwithstanding said moneys, or part thereof, so loaned or advanced by the company to the contractor for the purposes of said contract, should not be used by the contractor for the purposes of said contract, it being the intent hereof that the company shall not be obliged in any way to see to the application by the contractor, of said advances or loans or any part thereof.

And the said obligors hereby further jointly and severally agree for themselves, their heirs, executors, administrators, successors and assigns, to waive all notice of any defaults or any other act or acts, giving rise to any claim under said bond of suretyship given by the company to the obligee on behalf of the contractor as aforesaid, or of any and all liability on the part of the obligors hereunder, as well as notice of any and all liability of the company under said bond to the obligee executed by the company as surety, to the end and effect that the obligors shall jointly and severally be and remain liable to the company under this bond, notwithstanding any notice of any kind to which the obligors might have been or be entitled, and notwithstanding also any defences of any kind that the obligors might have been or be entitled to make,

And this bond of indemnity shall be liberally construed, so as to fully protect and indemnify the company,

Signed, sealed and delivered in the presence of

(Signature.)

State of _____, of _____, ss.:

Personally appeared before me _____ on this _____ day of _____, A. D. 19____, the above named _____ to me known to be the person, who executed the foregoing instrument of writing, and acknowledge the same to be his act and deed.

Witness my hand and official seal, this _____ day of _____, 19____.
State of _____, of _____, ss.:

On this _____ day of _____, in the year 19____, before me personally came _____, president of the _____, with whom I am personally acquainted, who, being by me duly sworn, said that he resided in the city of _____, that he is the _____ president of the _____, that he knew the corporate seal of said corporation; that the seal affixed to the above instrument of writing is such corporate seal; that it was affixed by order of the board of directors of said corporation; and that he signed his name thereto by the like order as _____ president of said corporation.

In witness whereof, I have hereunto set my hand and affixed my official seal the day and year first above written.

(Signature.)

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The following instructions must be adhered to in the execution of this bond:

Insert the name and residence of the principal and sureties.

Insert the penalty, in words and in figures.

Insert the date of the execution of this bond.

Insert the penalty of the contract bond, in words and in figures.

Insert the name of the party on behalf of whom the contract bond was written by the company.

Insert the name and residence of the party in whose favor the contract bond was written.

Insert the date of the execution of the contract bond.

Insert the time of payment and the premium the company is to receive for executing the contract bond.

SAMPLE APPLICATION FORM USED IN JUDICIAL CASES FOR "SHORT TERM" TRUSTS.

1. Name of applicant	2. Residence	3.
Occupation	4. Business address	5. Amount
of bond required, \$	Liability, \$	6. Nature of
bond required	7. Have you given bond in this estate	before. If so, why is change desired?
8. Bond filed	9. Title of	in court of county, state of
case or name of deceased	10. Names and addresses	of attorneys
11. Name of bank in which deposits will be kept	12. Name of depository of securities, if any	13. Will funds be so ear-marked as to be identified at all times?
14. Will cash coming in hand be invested during administration? If so, how?	15. State whether you are indebted to estate. If so, the amount and nature of indebtedness, and whether secured	16. In whose name are deposits kept?
17. Do you own any property, real or personal? If so, give description and value of same, and if encumbered, state for what amount and to whom due	18. Have you any debts or liabilities, individual or otherwise? If so, give description and amount of same, and state whether you are endorser or have become security for any person or corporation	19. Date of death
20. Names, addresses and relationship of next of kin, legatees, heirs-at-law and all persons interested in the estate	21. Give description of assets of estate, both real and personal	22. Give list of liabilities of estate, and to whom due (For receivers and assignees
23. Give description of assets of liabilities	State if assets are to be converted into cash for distribution among creditors, or reorganization of company expected	24. Give names and addresses of four or more persons, not related to you, who have known you for some years past.
Name,	Profession or trade.	Postal address in full, street and number in cities (please write names and addresses distinctly)

READ THIS CAREFULLY.

certify that the answers given to the foregoing interrogatories are true, and in consideration of the company con-

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sending or agreeing to execute or guarantee the bond herein applied for do hereby covenant, promise and agree to pay the premium or fees herein agreed upon, to wit: \$ first year, and \$ each year thereafter; to furnish said company with copies of all important court papers connected with the settlement of the estate; to pay the said company any and all losses, costs, charges, suits, damages, counsel fees and expenses of whatever kind or nature which said company shall or may for any cause, at any time sustain, or incur, or be put to, for or by reason or in consequence of said company having entered into or executed said bond; to furnish to said company within twenty days after the execution of the bond herein applied for, at its office in the city of , a true and perfect inventory of all the said estate, if practicable, if not, a brief extract indicating the nature of each class of property and its estimated value, which shall come to possession or knowledge; to deposit all securities belonging to said estate in the bank or trust company above named, in fiduciary capacity; to permit said company or its representative to examine them at all reasonable times; not to sell, dispose of or to convert any of the assets of the estate into cash, without an order of court having jurisdiction first had and obtained; to deposit all moneys and funds belonging to the estate now on hand, and also such moneys and funds as may come into hands, from time to time, during the administration of said estate, from any source whatever, in the bank or banks aforesaid; such money to be withdrawn only upon checks in fiduciary capacity for the purpose connected with the administration of the trust; to keep just, true and accurate papers and books of account of said trust, which papers and books of account shall at all reasonable times be open to the free and full inspection and examination of the representative of said company; to furnish said company with reports, from time to time, of receipts and disbursements; to substitute in the event of failure to comply with any condition or covenant herein, other sureties on the bond herein applied for, within fifteen days after notice given by said company of default, said company returning the unearned premium; that if should desire, during the administration of said estate, to substitute, of own motion, a new bond for the one herein applied for, will not give such new bond until said company has been legally released from further liability, and in the event of said company not being legally released, agree to continue to pay the premiums herein specified; to pay all cost and expenses said company may incur in obtaining release or discharge as surety upon this bond herein applied for in case fail to substitute other sureties as herein set forth, and at the termination of trust, to furnish said company with satisfactory and conclusive evidence that said trust has been faithfully and legally executed, and all persons interested paid. do further covenant and agree that will at all times keep the funds of the estate separate from private property; that will not mingle them with any other property entrusted to care; that the estate shall always be in such a condition that it can easily be identified; that will not use any of said funds for own purpose, and will, in all transactions, strictly comply with the orders of the court and the requirements of the law in the settlement of said estate; and as to bond herein applied for, do waive right to home- stead or other exemption under the laws of any state. And do further agree, if any suit is brought on the bond herein applied for, to permit said company to employ its own counsel or attorney

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to defend such suit, and to repay to said company the fee of said counsel or attorney and all other costs and expenses to which said company may be put in the defense of such suit. do further agree that said company may, at the end of the trust, or any other time, enquire of the beneficiaries as to the settlement of said trust, or in regard to its management.

In testimony whereof hereunto subscribe name this
day of A. D. 19 .

(Signature.)

SAMPLE APPLICATION FORM USED IN JUDICIAL CASES IN "LONG TERM" TRUSTS.

1. Name of applicant 2. Residence 3. Occupation 4. Business address 5. Amount of bond required, \$ 6. Nature of bond required 7. Have you given bond in this estate before? If so, why is change desired? 8. Name of attorney 9. Name of court in which bond is filed 10. Are you indebted to trust estate? If so, state amount and how secured 11. Give full names, ages and residences of your wards, and the beneficiaries of the trust 12. State names and addresses of persons entitled to trust fund in event of ward's death during the trust 13. Give description of estate coming into your hands; and from what source derived 14. With whom are wards living, and how much is required for their annual support? 15. Name of bank in which deposits will be kept 16. Name of bank or trust company in which securities will be kept 17. If any portion of estate already invested, by whom and under what authority? 18. Have you any private property, real or personal? If so, give description and value of same, and if encumbered, state for what amount and to whom due 19. Have you any debts or liabilities, individual or otherwise? If so, give description and amount of same, and state whether you are endorser or have become security for any person or corporation. 20. Give the names and addresses of four or more persons, not related to you, who have known you for some years past. Name. Profession or trade. Postal address in full, street and number in cities.

READ THIS CAREFULLY.

certify that the answers given to the foregoing interrogatories are true, and in consideration of the company consenting or agreeing to execute or guarantee the bond herein applied for, do hereby covenant, promise and agree to pay the premium or fees herein agreed upon, to wit: \$ first year, and \$ each year thereafter; to furnish said company with copies of all reports to the court connected with the estate; to indemnify and keep indemnified the said company from and against any and all loss, costs, charges, suits, damages, counsel fees and expenses of whatever kind or nature which said company shall or may, for any cause, at any time, sustain or incur, or be put to, for, or by reason or in consequence of said company having entered into or executed said bond; to furnish said company as soon as

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practicable after the execution of the bond herein applied for, at its office in the city of a true and perfect inventory of all the said estate, which shall come to possession or knowledge, enumerating and specifically describing the nature and character of the assets; to deposit all securities belonging to said estate, in the in the names of the securities not to be removed, except with the knowledge and consent of said company or its representative; to give said company the privilege of examining them at any time; not to sell, dispose of, or convert any of the assets of the estate into cash, without an order of court having jurisdiction first had and obtained; to make all investments in such manner as under the laws of the state where the trust is being administered, the said company shall not be responsible if loss results to the estate by reason of said investments; to take said securities in my name in my fiduciary capacity, so that they will show upon their face to what trust estate they belong; to make no investments except as herein specified, and when practicable, to secure an order of court authorizing the same; to keep the estate so ear-marked that it can at all times be identified; to report to the court all investments made by me, and all securities received from others, and in respect to the latter to convert any of them into cash which are deemed insecure and reinvest proceeds as herein provided; to make my reports to the court when required by law, and to furnish said company with copies of the same; to deposit all moneys and funds belonging to the estate now on hand, and also such moneys and funds as may come into hands, from time to time, during the administration of said estate, from any source whatever, in the , reports to be given to the said company, from time to time, as to receipts and disbursements, said moneys and funds to be withdrawn only upon the checks, drafts or written orders of in fiduciary capacity, and for purposes connected with the trust only; to keep just, true and accurate papers and books of account of said trust, which papers and books of account shall at all reasonable times be open to the free and full inspection and examination of the representative of said company; to keep said estate separate and distinct from all other property, individual or otherwise; to substitute, in the event of failure to comply with any condition or covenant herein, other securities on the bond herein applied for, within fifteen days after notice given by said company of default said company returning the unearned premium; that if should desire, during the administration of said estate, to substitute, of of own motion, a new bond for the one herein applied for, will not give such new bond until said company has been legally released from further liability, and in the event of said company not be legally released, agree to continue to pay the premiums herein specified; to pay all costs and expenses said company may incur in obtaining a release or discharge as surety upon this bond herein applied for, in case fail to substitute other sureties as hereinbefore set forth, and at the termination of trust to furnish said company with satisfactory and conclusive evidence that said trust has been faithfully and legally executed and all persons interested paid; and as to the bond herein applied for, do waive right to homestead or other exemption under the laws of any state. And do further agree, if any suit is brought on the bond herein applied for, to permit said company to employ its own counsel

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or attorney to defend such suit, and to repay to said company the fee of said counsel or attorney and all other costs and expenses to which said company may be put in the defense of such suit.

In testimony whereof hereunto subscribe name this
day of A. D. 19 .
Witness : (Signature.)

SAMPLE APPLICATION FORM USED IN COURT PROCEEDINGS.

1. Name of applicant . 2. Residence . 3. Occupation . 4. Business address . 5. Amount of bond required, \$. 6. Name of court in which bond is filed . 7. Exact title of case . 8. Names and addresses of attorneys . 9. Nature or character of the bond required, stating full particulars, as per the following instructions :

INSTRUCTIONS.

(a) For attachment and sequestration, state the amount and character of the claim of the plaintiff; the ground of the attachment or sequestration, giving reference to statute of state authorizing its issuance, character of property seized and what disposition will be made of same during the litigation; if garnishment state names and addresses of garnishees and nature and amount of property in their hands; also if any prior attachment has been issued.

(b) For replevin, state facts upon which applicant bases right to replevy and give briefly circumstances under which defendant obtained possession; also what disposition will be made of the property pending the suit.

(c) For appeal or supersedeas bond, state amount of judgment or decree, give description and location of real estate owned by applicant, whether there is any other encumbrance on said property, if so, amount of same and to whom due; also state if judgment will remain a lien upon real estate pending appeal and give reference to statute of state bearing on this point.

(d) For injunction, state briefly the substance of the bill or petition asking for injunction, and attach copy of restraining order.

(e) For bond releasing or dissolving attachment, state character and value of property attached and what disposition of same will be made pending the suit.

(f) For forthcoming, claim and delivery and other similar bonds, set forth fully the facts which induce the applicant to regard the property as his own; also what he intends to do with it when he obtains possession.

(g) In all other cases where bond is required in any legal proceedings, state fully and particularly all the facts of the case having any bearing upon the risk involved.

10. Have you any private property, real or personal? If so, give description and value of same, and if encumbered state for what amount and to whom due . 11. Have you any

debts or liabilities, individual or otherwise? If so, give description and amount of same, and state whether you are endorser or have become security for any person or corporation . 12.

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Give the names and addresses of four or more persons, not related to you, who have known you for some years past Name.
Profession or trade Postal address in full, street and number in cities.

certify that the answers given to the foregoing interrogatories are true, and in consideration of the company consenting or agreeing to execute or guarantee the bond herein applied for do hereby covenant, promise and agree to pay the premium or fees herein agreed upon, viz.: dollars (\$) per annum, and at the termination of the case to furnish said company with satisfactory and conclusive evidence that there is no further liability on said bond; and to reimburse the said company for any and all loss, costs, charges, suits, damages, counsel fees and expenses of whatever kind or nature which said company shall or may, for any cause, at any time, sustain or incur, or be put to, or by reason or in consequence of said company having entered into or executed said bond.

And do expressly waive, as to this obligation, the benefit of exemption, or the homestead provision, to which entitled under the laws of any state of the United States. And

do further agree, if any suit is brought on the bond herein applied for, to permit said company to employ its own counsel or attorney to defend such suit, and to repay to said company the fee of said counsel or attorney and all other costs and expenses to which said company may be put in the defense of such suit.

In testimony whereof, hereunto subscribe name this
day of A. D. 19 .

(Signature.)

SAMPLE FORM OF APPLICATION USED FOR BONDS OF INDEMNITY.

USED FOR LOST INSURANCE POLICIES, CHECKS, BONDS, NOTES,
CERTIFICATES OF DEPOSIT, CERTIFICATES OF STOCK, WARE-
HOUSE AND STORAGE RECEIPTS, ETC.

1. Name of applicant	2. Occupation	Business
address	3. Residence	4. Full name of
obligee	5. Number of instrument	6.
Amount of instrument, \$	7. Name of beneficiary or	
payee, etc.	8. Amount to be paid on instrument,	
\$	9. Nature of payment	10. Amount of
bond required, \$	11. Amount of premium to be paid	
upon execution of bond, \$		

INSTRUCTIONS.

The applicant should make an affidavit stating: (1) his interest in the instrument; (2) that he has never assigned or hypothecated that interest; (3) the facts surrounding the loss of the instrument; (4) the approximate value of his estate over and above all debts or liabilities.

It is further required that every beneficiary under the instrument make an affidavit stating that he has never assigned or hypothecated his interest. If there has been an assignment by any party formerly in interest, it should be especially set forth by the applicant.

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

State of _____, county of _____, ss.:

I, _____ of _____ in the county of _____ and state of _____, being duly sworn on oath, depose and say that I, am the owner of a certain _____, and that on or about the _____ I lost the same in the following manner, viz.: _____, that I have made due and diligent search for said _____ but have not found the same, and that I have not sold, assigned, endorsed, transferred or hypothecated said _____ or any interest therein in any manner whatsoever. That my approximate assets over and above all my debts and liabilities are of the value of \$ _____. And I do further declare that this statement is made for the sole purpose of securing a bond of indemnity from the _____ company to the _____.

In witness whereof I hereunto subscribe my name this _____ day of _____, A. D. 19 _____. (Signature.)

Subscribed and sworn to before me. _____, State of _____, 19 _____.
_____, Notary Public. Commission expires. _____

12. Give the names and addresses of persons not related to you who have known you for some years past. Name of references. _____
Occupation. _____ Address. _____

(The agreement of indemnity must be executed by all parties having an interest in the instrument.)

This agreement, made this _____ day of _____ in the year one thousand nine hundred and _____, by and between _____ part of the first part, and the _____ company, having its home office in the city of _____, party of the second part, witnesseth:

Whereas, at the special instance and request of the part of the first part, and on the security hereof, the _____ company is about to become surety for said party or parties of the first part on a certain bond conditioned as therein mentioned, a copy of which bond is hereto annexed, and forms a part of this agreement.

Now, therefore, in consideration of the premises and of the sum of one dollar in hand paid to said part of the first part, the receipt whereof is hereby acknowledged, the said part of the first part do hereby agree and bind _____, _____, _____ heirs and assigns, jointly and severally, as follows, to wit:

That said part of the first part shall and will at all times indemnify, and keep indemnified, and save harmless the said company from and against all loss, damages, costs, charges, counsel fees and expense whatsoever which said company shall or may, for any cause, at any time, sustain or incur by reason or in consequence of said company having executed said bond; and does further covenant and agree to pay to said company or its representatives all damages for which said company or its representatives shall become responsible upon the said bond before said company or its representatives shall be compelled to pay the same, any sum so paid, however, to be applied to the payment of such damages; and in case any suit, action or other proceeding shall be commenced by or notice served on said part of the first part in any manner relating to or growing out of the matter or business for or on account of which the aforesaid bond was required to be executed, immediate notice thereof shall be given to said company at its offices in the city of _____.

That the said part of the first part will pay to the said party of the second part, or its duly authorized agent, the premium stipulated in this application to be paid.

In witness whereof, the said part of the first part ha hereto set _____ hand and seal the day and year first above written. (Signature.)

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

State of _____, county of _____ ss.:
 On this _____ day of _____, 19____, before me personally came
 to me known, and known to me to be the individual de-
 scribed in and who executed the foregoing instrument, and
 duly acknowledged to me that _____ had executed the same.
 _____, Notary Public.

SAMPLE APPLICATION FORM USED FOR COUNTY AND STATE OFFICIALS, ETC.

1. Name of applicant _____ Age _____ 2. Single or married? _____
3. Residence (street and number), _____ 4. Town, _____
- city and state _____ 5. Official address. _____ County seat _____
6. Father. _____ Occupation. _____ (If parents are dead, five names
and addresses of some male relatives.) _____ Address _____
7. Mother. _____ Address _____ 8. Give exact title of state,
county or municipal government, public official or individual to
whom bond is to be given _____ 9. Address _____ 10.
- Amount of bond, \$ _____ to date from _____ 11. Official title
of applicant _____ 12. Date of your election? _____
13. Term begins _____ Term ends _____
14. What is your compensation? (If commissions, state
the percentage and approximate annual income therefrom.) _____
15. How is same paid to you? _____ 16. State fully the duties
and responsibilities of the office _____ 17. Do you collect
taxes? _____ Give amount of levy. \$ _____ 18. Are you liable
for uncollected taxes? _____ 19. How are you relieved from
such responsibility? _____ 20. Approximate amount of
money handled during the year, \$ _____ 21. During what
month are your largest receipts? _____ 22. Largest amount
apt to be under your control at any time? \$ _____ 23. For
what length of time is this amount apt to be under your control?
_____ 24. Give average daily handlings. \$ _____ 25.
- Where are funds deposited? _____ 26. By whom is such de-
pository designated? _____ 27. Does the law require the funds
to be deposited as above stated? _____ 28. Are you responsible
for the failure of the depository? _____ 29. In what name
are the above mentioned deposits kept? _____ 30. Are funds
withdrawn from depository by check of applicant? _____ 31.
- If so, is the countersignature of any one required, and of whom?
_____ 32. Are funds paid out upon warrants of other
officials? _____ 33. Do these warrants accompany or become
part of your checks or drafts upon the depository? _____ Give par-
ticulars and furnish samples of tax-bills, checks, warrants, etc.
_____ 34. When are you required to make reports? Give
dates _____ 35. To whom do you make same? _____
36. When are your accounts examined? Give dates _____
37. Who makes these examinations? _____ 38. When are you
required to make settlements? Give dates _____ 39. With
whom do you make same? _____ 40. Have you previously
occupied this position? _____ 41. If so, during what period?
From _____ 1 _____ to _____ 1 _____ 42. Who then furnished
you bond? _____ 43. Why is change now desired? _____
44. Has your application to a surety company for bond ever been
declined? _____ 45. If so, give name of company and reason
assigned for such declination _____ 46. What was your em-

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

ployment prior to the acceptance of the position for which bond is desired? . 47. Name and address of last employer .

48. Will you continue in any business or employment during your term of office? If so, state character of same .

49. What will be your probable net income from such business or employment? . 50. Do you own any property, real or personal? If so, give description and value of same and state

amount of incumbrance, if any thereon . 51. What amount of life insurance do you carry? . 52. State

nature of policies, name of companies and to whom payable .

53. Give amount of your debts other than liens on property, and state whether you are endorser or have become security for any individual, firm or corporation . 54. Give the names and

addresses of four or more persons, not related to you, who have known you for some years past, writing names and addresses distinctly. Names of references. Occupation. Postal

address in full, give street numbers in cities also state.

I certify that the answers given to the foregoing interrogatories are true, and in consideration of the company executing the bond herein applied for I do hereby covenant, promise and agree to pay the premium or fees hereafter agreed upon, viz.:

(\$) per annum in advance, and to pay said company any and all loss, costs, charges, suits, damages, counsel fees and expenses of whatever kind or nature, which said company shall or may, for any cause at any time, sustain, or incur, or be put to, for or by reason or in consequence of said company having entered into or executed said bond; and do expressly waive, as to this obligation, the benefit of my exemption, or the homestead provision, to which I am entitled under the laws of any state of the United States.

I further covenant, promise and agree to render to the said company when requested, a statement showing all receipts and disbursements of my office, and the balances on hand and in bank with certificate of bank or banks covering said balances and to allow any duly authorized representative of the said company full and immediate access to all books, records, cash, securities, etc., and I further agree to render all such reasonable facilities and assistance as may be necessary for him to arrive at a full and complete knowledge of the true condition of my said office.

I further covenant, promise and agree to file with the said company at the office of the said company in , a duplicate of all receipts for transfer of funds, and of the certificates of each and every examination of the condition of my aforesaid office, as by law required to be made, or which shall at any time be made by any person or officer, after said certificate shall have been delivered to me.

I further covenant and agree that I will not substitute another bond for the one herein applied for, during my present term of office, without first notifying said company, and also having said company legally released from all liability from and after the date of said new bond; and upon my failure to comply with this covenant, or any part thereof, I agree to continue to pay the premium as hereinabove set out.

I further covenant, promise and agree to bond in reasonable penalties with good and sufficient surety (giving preference at all times, where circumstances will permit, to corporate suretyship), each and every one of the employees of my office occupying positions where by reason thereof pecuniary loss to me would be possible.

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

I further agree that said _____ company may decline to issue said bond hereby applied for, and in case it does issue said bond, it shall have the right to withdraw or cancel the same whenever it shall see fit; and in any event the company shall not be required to disclose the reasons upon which its action is based and shall not be responsible for any loss or damage that I may sustain by reason of such action.

In testimony whereof, I hereunto subscribe my name this day of _____, A. D., 19 ____.

(Signature.)

Witness : _____

SAMPLE APPLICATION FORM USED FOR U. S. GOV'T. OFFICIALS.

Application by _____ of _____ for a bond of \$ _____ as _____ the service of the U. S. Gov't. under _____ at _____ in the State of _____.

ANSWER EACH QUESTION FULLY.

1. Full name of applicant _____ Age _____ years _____
2. Where born? _____ 3. Present address (residence)? _____
4. Single, married or widower? _____ 5. When were you appointed to your present position? _____
6. From what date is your bond to be written? _____ 7. What salary will you receive? _____
8. Have you any income other than your salary? If so, how much and from what source derived? _____
9. Do you possess any real estate? If so, approximate its value _____
10. State amount of incumbrance on real estate, if any _____
11. Approximate the value of your personal property _____
12. What was your occupation immediately preceding your present appointment? _____
13. Give name of your last employer _____ Address _____
14. Give the names and addresses of four or more persons, not related to you, who have known you for some years. Name _____ Profession or trade _____
- Postal address in full, street and number in cities. _____

I certify that the answers given to the foregoing interrogatories are true, and in consideration of the _____ company consenting or agreeing to execute or guarantee the bond herein applied for, I do hereby covenant, promise and agree to pay the premium or fee hereafter agreed upon, to wit: _____ dollars (\$ _____) per annum, in advance, to comply with all the conditions established by said company for its own protection, and to reimburse the said company for any and all loss, costs, charges, suits, damages, counsel fees and expenses of whatever nature or kind which said company shall or may, for any cause, at any time, sustain or incur, or be put to, for, or by reason or in consequence of said company having entered into or executed said bond.

I further agree that said _____ company may decline to issue said bond hereby applied for, and in case it does issue said bond, shall have the right to withdraw or cancel the same whenever it shall see fit; and in any event the company shall not be required to disclose the reasons upon which its action is based and shall not be responsible for any loss or damage that I may sustain by reason of such action.

In testimony whereof, I hereunto set my hand this day of _____, 19 ____.

Witness : _____

(Signature.)

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

SAMPLE APPLICATION FORM USED FOR UNITED STATES INTERNAL REVENUE TOBACCO AND CIGAR MANUFACTURERS BONDS.

1. Name of applicant Age 2. Residence
3. Name of manager of factory 4. Residence
5. Business address 6. Amount of bond or bonds required, \$ 7. For what purpose required? (State whether for "Cigar," "Plug," "Cigarette," or Cut Tobacco Factory.)
8. In what State is the factory located?
9. In what Internal Revenue district? 10. Name of the collector for that district 11. Address of collector
12. Official number of factory 13. Location, giving street, number and portion of building occupied
14. If machines are used, state number and character of same, also number of hands employed 15. If machines are not used, state number of hands employed in manufacturing the various lines
16. How long have you been operating at above address? 17. How long have you been engaged in the manufacture of tobacco?
18. Have you ever had any trouble with the Internal Revenue department? 19. If so, state particulars
20. If applicant is engaged in any other business, state character of same and business address Applicant must make statement of his holdings, including value of tobacco in stock.

STATEMENT OF ASSETS AND LIABILITIES.

Cash on hand and in Bank	Borrowed or due on Stocks, Bonds, etc.
Stocks, Bonds, etc., Market Value	Borrowed or due on Real Estate
Real Estate, consisting of	Incumbrance on plant
Plant, consisting of	Notes Payable
Stock of Supplies	Accounts Payable
Notes Receivable	Other Liabilities
Accounts Receivable	
Other Assets	
TOTAL ASSETS	TOTAL LIABILITIES

If applicant is a stock company, give amount of capital stock, amount paid in, names of executive officers, etc.

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

REFERENCES.

Name. Profession or trade. Postal address in full, street and number in cities. .

certify that the answers given to the foregoing interrogatories are true; and in consideration of the company consenting or agreeing to execute or guarantee the bond herein applied for do hereby covenant, promise and agree to pay the premium or fees hereafter agreed upon, viz.: (\$) per annum, in advance, made by the company for executing said bond and continuing the same, until said company shall, in the manner provided by law, be discharged or released from any and all liability and responsibility upon and from said bond and all matters arising therefrom, and proper legal evidence of such discharge or release be served on the company and also, to pay the said company any and all loss, costs, charges, suits, damages, counsel fees and expenses of whatever kind or nature which said company shall or may, for any cause, at any time, sustain or incur, or be put to, for, or by reason or in consequence of said company having entered into or executed said bond.

further agree that said company may decline to issue said bond hereby applied for, and in case it does issue said bond, it shall have the right to withdraw or cancel the same whenever it shall see fit; and in any event the company shall not be required to disclose the reasons upon which its action is based and shall not be responsible for any loss or damage that may sustain by reason of such action.

In testimony whereof, I hereunto subscribe my name this day of , A. D., 19 .

Witness:

(Signature.)

SAMPLE APPLICATION FORM USED FOR UNITED STATES INTERNAL REVENUE DISTILLERS AND WAREHOUSING BONDS.

1. Name of applicant . 2. Residence . 3. Name of manager of distillery or warehouse . 4. Residence .
5. Business address . 6. Amount of bond or bonds required, \$. 7. For what purpose required? (State whether "Annual Distillers," "Monthly Warehousing," "Transportation for Warehousing," "General Bonded Warehouse," "Special Bonded Warehouse," "Export Bonds," etc.) .
8. In what State is the distillery or warehouse located? . 9. In what Internal Revenue district? .
10. Name of the collector for that district? . 11. Address of collector . 12. Official number of distillery or distilleries .
13. Locations and numbers of warehouses . 14. Length of time distilleries are apt to be in operation in each year . 15. Monthly capacity of distilleries in barrels .
16. Storage capacity of warehouses in barrels. Give each warehouse separately . 17. If applicant is engaged in any other business, state character of same and business address .

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

STATEMENT OF ASSETS AND LIABILITIES.

Cash on hand and in Bank.....			Borrowed or due on Stocks,		
Stocks, Bonds, etc., Market			Bonds, etc.....		
Value.....			Borrowed or due on Real		
Real Estate, consisting of.....			Estate.....		
.....					
.....					
Plant, consisting of.....			Incumbrance on plant.....		
.....					
.....					
Stock of Supplies.....			Notes Payable.....		
Notes Receivable.....			Accounts Payable.....		
Accounts Receivable.....			Other Liabilities.....		
Other Assets.....					
TOTAL ASSETS.....			TOTAL LIABILITIES.....		

18. If applicant is a stock company, give amount of capital stock, amount paid in, names of executive officers, etc.

Name. Profession or trade. Postal address in full, street and number in cities. (Please write names and addresses distinctly.)

certify that the answers given to the foregoing interrogatories are true, and in consideration of the company executing the bond herein applied for do hereby covenant, promise and agree to pay the premium or fees hereafter agreed upon, viz.: to indemnify, and to keep indemnified, the said company from and against any and all loss, costs, charges, suits, damages, counsel fees and expenses of whatever kind or nature, which said company shall or may, for any cause, at any time, sustain, or incur, or be put to, for or by reason or in consequence of said company having entered into or executed said bond.

further agree that said company may decline to issue said bond hereby applied for, and in case it does issue said bond, it shall have the right to withdraw or cancel the same whenever it shall see fit; and in any event the company shall not be required to disclose the reasons upon which its action is based and shall not be responsible for any loss or damage that may sustain by reason of such action.

In testimony whereof, hereunto subscribe name this day of , 19 .

(Signature.)

SAMPLE APPLICATION FORM USED FOR MISCELLANEOUS BONDS.

(Wording Changed to Suit Special Contingencies.)

1. Exact title of corporation .
2. When incorporated
3. In what State? .
4. Principal office

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

5. Character of business 6. Amount of bond required, \$ 7. To whom given Address
8. Nature or character of the guarantee required, stating full particulars. (If bond is given for carrying out any agreement, or for compliance with certain laws, ordinances, etc., a copy of the agreement, etc., or abstract from the laws should accompany the application.) Bond is given for 9. Who is authorized under your charter to make a valid contract binding on the company, or who is the proper officer or officers to sign a sealed instrument of writing? 10. What is the authorized capital of the company? \$ 11. How much of above has been subscribed? \$ 12. How much has been paid in? \$

STATEMENT OF ASSETS AND LIABILITIES.

Available Cash		Capital Stock	
Stocks, Bonds, etc., Market Value		Borrowed or due on Stocks, Bonds, etc.	
Real Estate, consisting of		Borrowed or due on Real Estate	
.			
.			
Plant, consisting of		Incumbrance on plant	
.			
Stock of Supplies			
Notes Receivable		Notes Payable	
Accounts Receivable		Accounts Payable	
Other Assets		Other Liabilities	
TOTAL ASSETS		TOTAL LIABILITIES	

13. Give the names and addresses of four or more persons or corporations who are acquainted with the business methods of the company. Name. Profession or trade. Postal address in full, street and number in cities. (Please write names and addresses distinctly.)

I, _____, do hereby certify that the answers given to the foregoing interrogatories are true; and in consideration of the _____ company consenting or agreeing to execute or guarantee the bond herein applied for, the _____ does hereby covenant, promise and agree to pay the premium or fees herein agreed upon, viz.: _____ dollars per annum in advance; and to indemnify and to keep indemnified, the said company from and against any and all loss, costs, charges, suits, damages, counsel fees and expenses of whatever nature or kind which said company shall or may, for any cause, at any time, sustain or incur, or be put to, for or by reason or in consequence of said company having entered into or executed said bond.

In testimony whereof, _____ has caused this application to be signed by its _____ and its corporate seal to be hereunto affixed this _____ day of _____, A. D. 19 _____.

(Attest:)

(Signature.)

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

SAMPLE APPLICATION FORM FOR DEPOSITORY BOND.

APPLICATION FOR BOND BY A BANK OR TRUST COMPANY.

1. Exact corporate title 2. Date of incorporation
- In what State 3. Address 4. Penalty of bond 5. To whom given—obligee 6. Date from which bond is required 7. By what authority is bank designated? (i. e., by what law or other provisions—Give copy of such law or other provision.)
8. Who is directed to execute this authority, and what form does its execution take? (i. e., by resolution, order, etc. Furnish copy of such resolution or order, passed in this case.)
9. Term of designation? 10. Is interest paid on this deposit? To whom credited? Rate 11. Attach hereto a true financial statement of said bank or trust company, showing its resources and liabilities, on the day preceding the date of this application, and also a copy of the last published financial statement of such bank or trust company. (N. B. If there are any "Overdrafts" advise whether secured or unsecured. Give particulars.)
12. Are the stockholders only liable for their subscription, or for double their subscription?
13. When was the last examination made by national or State bank examiner?
14. By whom are the loans of the bank or trust company directly authorized?

certify that the answers given to the foregoing interrogatories, are true; and in consideration of the company consenting or agreeing to execute or guarantee the bond herein applied for, the (insert the name of bank or trust company) does hereby covenant, promise and agree to pay the premium or fees herein agreed upon, viz.: dollars (\$) per annum, in advance; and to indemnify, and keep indemnified, the said company from and against any and all loss, costs, charges, suits, damages, counsel fees and expenses of whatever nature or kind which said company shall or may, for any cause, at any time, sustain or incur, or be put to, for, or by reason or in consequence of said company having entered into or executed said bond.

The acceptance of this agreement, and of the depository's agreement to pay premiums for the execution of said bond, or the acceptance at any time by the company of other security, shall not in any way abridge or limit the right of the company to be subrogated to any right or remedy, or limit any right or remedy which the company might otherwise have, acquire, exercise or enforce, and the company shall have every right and remedy which an individual surety acting without compensation, would have.

In testimony whereof has caused this application to be signed by its and its corporate seal to be hereunto affixed this day of , A. D., 19 .

(Attest:)

By

Address

(Signature.)

N. B.—The agent should ascertain and report fully when sending in application on the following facts: a, b, c, d,*

* The questions a, b, c, and d, which are as follows: (a) Political affiliations. (b) Loans to officers and directors. (c) Financial and business standing of directors. (d) Financial strength of largest stockholders will be asked confidentially of the agent by the home office, and should be forwarded with the application.

SAMPLE BOND FORM USED IN "PROMPT PAYMENT" DEPOSITORY BONDS.

Signed and sealed, this _____ day of _____, A. D., 19____.

**SAMPLE BOND FORM USED IN "DEFERRED
PAYMENT" DEPOSITORY BONDS.**

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Whereas, of hereinafter called the "assured," has opened a deposit account in the name of with the hereinafter called the "bank;"

Now, therefore, in consideration, and on condition, of the payment of dollars (\$) per annum as a premium, the company, of , hereinafter called the "company," does hereby agree that it will, subject to the following conditions, pay the assured for any loss not exceeding dollars (\$), which said assured may sustain by reason of said bank becoming bankrupt or insolvent, or going into the hands of receiver; which loss said company agrees to pay after the final distribution shall be made of the assets of said bank and within ten days after said assured shall have received his final dividend therefrom, and shall have filed proper proof of loss with the company on its forms at its home office in

This bond is executed and accepted subject to the following conditions:

First: This bond may be cancelled by the company at any time, and the company's liability hereunder shall cease immediately five days from the date of notice given to the assured by the company of its desire to withdraw therefrom, which notice shall be delivered in person, or by registered letter, to the assured at the address given herein.

Second: On the discovery of any default on the part of the bank, the assured shall give immediate written notice thereof, with the fullest information obtainable at the time, to the company at its home office in . Affirmative proof of loss under oath, together with full particulars of such loss, shall be filed with the company at its home office in , within three months after such discovery, and unless such affirmative proof of loss, under oath, together with full particulars of such loss, shall be filed with the company at its home office, , within three months after such discovery, and unless the other conditions of this bond are complied with by the assured, this bond shall be void.

Third: In the event of loss, the company shall, before payment, have granted unto it by the assured, a full, complete and clear title by assignment (together with warrant against adverse claim by any third party) of such proportion of the assured's claim against said bank, as the amount of the company's liability hereunder bears to the total deposit in said bank.

Fourth: If at any time the deposit exceeds the penalty of this bond, and additional bonds shall not have been required and furnished on behalf of the bank covering such excess, the company shall be liable hereunder for such proportion only of this bond, as the total sum of all good and valid bonds held by the assured bears to the total amount of such deposit.

Fifth: The company shall be liable hereunder for such proportion only of the total loss sustained, as the penalty of this bond bears to the total sum of all bonds and security furnished on behalf of said bank, whether such bonds or security be valid or not, whether or not the assured be able to reimburse itself from such bonds or security, but in no event shall the company be liable for an amount in excess of the penalty of this bond.

Sixth: It is agreed between the company and the assured that legal proceedings for recovery hereunder shall not be brought until three months after said assured shall have received his final dividend and filed proper proof of loss with the company at its home office as aforesaid, and shall not be brought at all unless begun

FIDELITY INSURANCE AND CORPORATE SURETYSHIP.

within twelve months from the time said assured shall have received his final dividend as aforesaid.

Seventh: In the event of loss, and the assured being indebted to said bank, the company may exercise the option of liquidating such indebtedness or any part thereof, and of turning over the evidence of such liquidation to the assured as a credit against the company's liability hereunder.

Eighth: Any erasure or change appearing on the face of this bond as originally printed, or any change or waiver of any of its terms or conditions or statements, shall be invalid unless endorsed hereon and signed by the president, or a vice-president, and attested by the secretary or one of the assistant secretaries of the company. Notice given to, or the knowledge of any agent or any other person, whether received or acquired before or after the date of this bond, shall not be held to waive any of the terms or conditions hereof, or to preclude the company from asserting any defense under the said terms and conditions, unless assented to in writing and signed by the president, or a vice-president, and attested by the secretary or one of the assistant secretaries of the company.

In witness whereof the company has caused this bond to be signed by its president and attested by its secretary and its corporate seal to be affixed hereto, the day and year first above written.

(Attest:)

(Signature.)

SAMPLE FORM OF GENERAL INDEMNITY BOND PROTECTING SURETY.

This agreement witnesseth: That, whereas, we the undersigned have requested the company, a corporation under the laws of the State of (hereinafter called the company), to sign and execute a certain bond or undertaking reference to which bond or undertaking is hereby made for the purpose of certainty and a copy of which instrument is or may be hereto attached; and

Whereas, the company has signed and executed, or is about to sign and execute, the said instrument upon condition of the execution and delivery hereof and upon the security and indemnity hereby and herein provided.

Now, therefore, in consideration of the premises and of the sum of one dollar in hand paid to us by the company, the receipt whereof is hereby acknowledged, we, the undersigned, hereby covenant and agree with the company, its successors and assigns, in manner following:

First: That we will pay in cash to the company, at its principal offices in the city of , for the execution of the said instrument, the annual premium or charge of dollars, to be paid annually in advance on the day of in each and every year during the time the company shall be and continue liable upon the said instrument, and until the company shall have been fully discharged and released from any and all liability upon the said instrument, and all matters arising therefrom, and until there shall have been furnished to the company, at its principal offices in the city of , due and satisfactory proof, by evidence legally competent, of such discharge and release.

Second: That we will at all times indemnify and keep indemnified the company, and hold and save it harmless from and against any

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and all demands, liabilities and expenses of whatsoever kind or nature, including counsel and attorneys' fees, which it shall at any time sustain or incur by reason or in consequence of having executed the said instrument; and that we will pay over, reimburse and make good to the company, its successors and assigns, all sums and amounts of money which the company or its representatives shall pay or cause to be paid or become liable to pay, under its obligation upon said instrument, or as charges and expenses of whatsoever kind or nature, including counsel and attorneys' fees, by reason of the execution thereof, or in connection with any litigation, investigation or other matters connected therewith, such payment to be made to the company as soon as it shall have become liable therefor, whether it shall have paid out said sum or any part thereof or not.

That in any settlement between us and the company the vouchers or other proper evidence showing payment by the company of any such loss, damage or expense, shall be prima facie evidence against us of the fact and amount of our liability to the company, provided that such payment shall have been made by the company in good faith, believing that it was liable therefor.

Third: That in case any action at law, suit in equity, or other proceeding be commenced or notice of such action, suit or proceeding be served upon the undersigned, affecting the liability of the company upon said instrument, or growing out of any matter connected herewith, or on account of which the said instrument was given, we will immediately so notify the company at its principal offices in the city of

Fourth: The company may at any time hereafter take such steps as it may deem necessary or proper to obtain its release from any and all liability under the said instrument, or under any other instrument within the meaning of section fifth hereof, and to secure and further indemnify itself against loss, and all damages and expense which the company may sustain or incur or be put to in obtaining such release, or in further securing itself against loss, shall be borne and paid by us.

Fifth: That no act or omission of the company in modifying, amending, limiting or extending the instrument so executed by the company shall in any way affect our liability hereunder, nor shall we or any of us be released from this obligation by reason thereof; and we agree that the company may alter, change, or modify, amend, limit or extend said instrument and may execute renewal thereof, or other and new obligations in its place or in lieu thereof, and without notice to us, notice being expressly waived, and in any such case, we and each of us shall be liable to the company as fully and to the same extent on account of any such altered, changed, modified, amended, limited or extended instrument, or such renewals thereof, or other or new obligations in its place or in lieu thereof, whenever and as often as made, as fully as if such instrument were described at length herein.

Sixth: That it shall not be necessary for the company to give us, or either of us, notice of any act, fact or information coming to the notice or knowledge of the company concerning or affecting its rights or liability under any such instruments by it so executed, or our rights or liabilities hereunder, notice of all such being hereby expressly waived.

Seventh: That this agreement shall bind not only the undersigned jointly and severally, but also our respective heirs, executors, administrators, successors and assigns (as the case may be),

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until the company shall have executed a release under its corporate seal, attested by the signatures of its officers proper for the purpose.

Eighth: That these covenants as also all collateral securities or indemnity, if any, at any time deposited with or available to the company concerning any bond or undertaking executed for or at the instance of us, or any of us, shall, at the option of the company, be available in its behalf and for its benefit and relief as well concerning any or all former or subsequent bonds or undertakings executed for us, or at the instance of us, or any of us, as concerning the bond or undertaking such covenants, collateral securities or indemnity shall have been made, deposited or given.

Ninth:

In testimony whereof, we have hereunto set our hands and affixed our seals this day of , 19 .

Signed, sealed and delivered in the presence of

(Signature.)

State of , county of , ss.:

On this day of , 19 , before me personally came to me known and known to me to be the individual described in and who executed the foregoing agreement, and acknowledged that executed the same.

State of , county of , ss.:

On the day of , in the year 19 , before me personally came ; to me known, who being by me duly sworn, did depose and say: that he resides in that he is the of the the corporation described in and which executed the foregoing instrument; that he knows the seal of the said corporation; that the seal affixed to the said instrument is such corporate seal; that it was so affixed by order of the board of directors of the said corporation, and that he signed his name to the said instrument by like order.

(Signature.)

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